UNIONS AND CAPITALISM

By

Charles E. Lindblom

NEW HAVEN

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To

E. N. L.

who is responsible for this book

PREFACE

WHILE an increasing number of economists believe that union pressure on wage rates is a—perhaps the—major economic problem of our time, some of my associates who have read this book in manuscript say this is no time to publish it. It gives "aid and comfort to the enemy," they fear, by describing the disruptive consequences of unionism in an economy such as ours. For the thesis of the book is that unionism and the private enterprise economy are incompatible; that once unions become strong, the attempt to maintain our economy as it now stands produces unemployment or inflation.

But I am not pamphleteering that a "bad" unionism is destroying a "good" competitive system. The obvious virtues of unionism and the equally obvious deficiencies of competition preclude so naïve an interpretation of the conflict. I wish instead to diagnose. Questions of right and wrong and of proper social policy to meet this problem are challenging and perhaps will be dealt with in another book. For the present the argument is, so far as possible, on fact rather than value. I of course hope that it will be possible for the analysis to be judged on its own merits rather than by any one of several controversial programs of regulation or reform which might be attached to it.

Actually, I will commit myself inescapably in general terms on attitude and policy simply because fact

and value can never be entirely separated. The fears of my associates that the book puts ammunition into someone's hands are not groundless. There would be nothing to fear on this score if every reader were careful and read the book from cover to cover. But the temptation to misread between the lines in a work of this kind is strong. Many readers will incorrectly take the argument to be an attack on unions.

Who are the "enemy" who must receive no aid and comfort? They are presumably the antiunionists —more generally, the conservatives who condemn the interference by government or unions in the workings of the private enterprise economy. Supposedly my "friends" are the liberals. These are loose terms, and it would be better not to use them. But the book will be read by people who identify themselves and others by these terms.

In so far as ethical values are embedded in the analysis and to the extent that they can be identified with the loose opposites, "liberal" and "conservative," I am a liberal. I think highly of the social reformer—not, of course, the crank with his panacea but the imaginative thinker who combines a concern for the general welfare with a conviction that man within limits can intelligently plan his social structure.

I am resigned to a cool reception from some liberals who will suspect my motives despite what is said here; and I suffer further an anticipatory embarrassment at the thought of being embraced in error by the stolid defenders of things as they are, really the protagonists of the world as they think it was. But

no intelligent conservative will find in this book cause for rejoicing.

For several reasons I especially want the liberal to read this book, although it is not written for him more than for anyone else. Liberals have accused the conservative of ordering his beliefs to the world of his grandfather, but they have lately done no better than order theirs to the world of their fathers. Although they may always be engaged in at least a superficial kind of introspection, most of them are only now—if at all—critically re-examining the validity and relevance of their slogans, loyalties, and favorite reforms. One particular failure is that they have been reluctant to recognize the fact of change in the labor movement. Many of them do not today know what unions are or what they are doing in terms of social organization and disorganization or of long-run social change.

This is not to say that they do not appreciate the merits of unionism. Rather they do not realize that it is finally pretty much a success—which means that it has the power to disrupt the established order as would any new institution of power. They fight the admission that unionism is disruptive in a competitive economy. But if it were not, how could it ever deserve the claims that they as liberals have made for it as an instrument of social betterment? Is the power to reform not also the power to disrupt?

If we have believed that unionism is a power for social betterment, we must recognize that it may be constructive and disruptive at the same time, that its

usefulness depends upon public policy, and that intelligent public policy is immensely more difficult to achieve in the face of this conflict than otherwise. Strong unionism is no engine of orderly social change.

This study was originally a research monograph in which controversial matters were avoided, as well as the larger social implications of the technical argument on union policies and their consequences in the economy. As an economist, I wrote it for other economists, intending to contribute to the understanding that they are developing in our society.

I think it has lost nothing in being rewritten for a larger audience. Nothing has been omitted; the revision has attempted rather to relate the technical argument and findings of fact to the large issues previously neglected. The book has presumably gained in comprehensiveness and meaning. I should like to believe that as it now stands it is worth the attention not only of the academician but of others who wish to come to grips with a major social problem.

ACKNOWLEDGMENTS

THE problem of incompatibility between strong labor unions and the competitive system has drawn relatively little attention from economists. The work of the late Professor Henry Simons stated the problem; but as the title of his paper, "Some Reflections on Syndicalism" (*Journal of Political Economy*, 52 [March, 1944], 1–25), suggests, his was not a systematic attack on the question. Among writers more friendly to unionism, a significant early attack on the problem, representing, however, a hypothesis with relatively little empirical evidence or application of price theory, was Frank Tannenbaum's *The Labor Movement: Its Conservative Functions and Social Consequences* (Putnam, 1921), a book unfortunately neglected by economists who could profitably have carried its line of argument further and subjected it to verification. For many years labor economists remained indifferent toward the relationship of unions to the price system. In the last few years, however, there has emerged a sharpened interest in the union as a price-making institution. John T. Dunlop's *Wage Determination Under Trade Unions* (Macmillan, 1944), Z. Clark Dickinson's *Collective Wage Determination* (Ronald, 1941), Sumner Slichter's *The Challenge of Industrial Relations* (Cornell, 1947) are representative of the newer interest. So also are many recent articles in the professional journals by A. M. Ross, L. G. Reynolds, Joseph Shister, Melvin Reder, R. A. Lester, and others.

On the whole, labor economists have been so impressed with Selig Perlman's demonstration of the powerful tendencies toward conservatism in mature trade unions (*A Theory of the Labor Movement* [Macmillan, 1928]) that they, like Perlman himself, have not allowed their attention

to be drawn to the revolutionary consequences of what seems to be conservative union action once unionism becomes strong, which it was not when Perlman wrote. Even today, for all the interest in wage rates and prices, adequate consideration has not been given to the major consequences of the high wage rates resulting from large-scale and well-entrenched collective bargaining. While labor economists have seen in collective bargaining certain disruptions of older methods of price making, they have tended to regard them as peripheral disturbances rather than as symptomatic of thoroughgoing conflict in social institutions. Continued postwar inflation has raised in the minds of many economists growing fears regarding union pressure on the price level, but these fears have not produced any intensive study of the problem.

Karl Polanyi's *Great Transformation* (Farrar and Rinehart, 1944) has again raised the problem earlier stated by Tannenbaum, but it was not Polanyi's purpose to analyze it. J. M. Clark in his *Alternative to Serfdom* (Columbia University Press, 1948) has briefly stated the problem and proposed solutions. C. Wright Mills' *The New Men of Power* (Harcourt Brace, 1948) is an important recent addition to these interpretative studies. Neither Simons, Polanyi, Clark, nor Mills is a labor economist. Their work shows a perspective which labor economists have not developed.

I wish to acknowledge my indebtedness to all the writers just mentioned. In addition, I wish to express my appreciation to a number of economists and political scientists for reading and criticizing various drafts of the present manuscript, including Messrs. E. H. Chamberlin, George Stigler, L. G. Reynolds, R. A. Lester, John Dunlop, Joseph Shister, Neil W. Chamberlain, F. H. Harbison, F. H. Knight, Gabriel Almond, Bernard Brodie, John P. Miller, Jack Chernick, R. B. Westerfield, and Charles Winston. To Bernard Brodie I owe further

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CONTENTS

	PREFACE	v
	ACKNOWLEDGMENTS	ix
I.	WORKER, UNION, AND PRICE SYSTEM	1
II.	MONOPOLY	22
III.	UNION WAGE AIMS	30
IV.	THE POLITICS OF UNIONISM	43
V.	THE TACTIC OF UNION MONOPOLY	56
VI.	UNEMPLOYMENT: COMPETITIVE OBSTACLE TO MONOPOLY	67
VII.	CONTROLLING COMPETITION	85
VIII.	CONTROLLING COMPETITION (CONTINUED)	99
IX.	EMPLOYER RESISTANCE	110
X.	UNIONISM'S POWER	125
XI.	INFLATION AND UNEMPLOYMENT	138
XII.	MANAGEMENT'S SHRINKING DOMAIN	156
XIII.	THE UNION AS ENTREPRENEUR	169
XIV.	SYNDICALISM: PLAN AND CONSEQUENCE	179
XV.	RESPONSIBLE UNIONISM	195
XVI.	INDUSTRIAL DEMOCRACY AND THE PRICE SYSTEM	215
XVII.	THE INADEQUACY OF COMPETITION	228
XVIII.	GOVERNMENT REGULATION	236
	NOTES	256
	INDEX	263

UNIONS AND CAPITALISM

CHAPTER I

WORKER, UNION, AND PRICE SYSTEM

BY CONTRAST with the impoverished European, the American worker lives in abundance and security. What grievances he has are overshadowed by the misery of war's aftermath abroad. And quite aside from the contrast with victims of war in Europe, his livelihood and position seem enviable, for here in the United States an immense productive capacity has been coupled with social reform to enlarge his income year by year and improve his social status.

Yet in one sense his problems are as disturbing as ever. For all his great gains, the American wage earner is still far short of his own goals. Today, as a century ago, achievement lags painfully behind aspiration, and problems once thought solved are unsolved. As always, the struggle to catch up itself produces new attitudes and programs. Today the wage earner's protests are the mainsprings of great social change.

A major instrument of this social change is the union. In it the worker finds the means for a powerful attack on his problems. The union bargains for higher wages to raise his income and establishes working rules to make that income more secure. It seeks to protect him through seniority, dismissal pay, regulation of innovation, benefits to unemployed members, the annual wage, work restriction, regulation of hours, control of entrance to his trade; this only begins to list the techniques of unionism. In all these tactics the union is insisting with some success that workers have rights to income, that their wages must

meet their needs, that the wage rate is something more than a price on a resource or a method of calculating costs.

In seeking these and other goals the union begins to create a body of rights in industrial life. Law and order replace the arbitrariness of the employer. Abusive discipline is curbed by a more impersonal system of reward and punishment. Grievance machinery establishes a judicial process in industry. The union sets standards of safety, sanitation, and comfort in the plant. It may even go so far as to influence directly the price and output policies of the firm, for these business decisions will ultimately affect the worker's income, security, and general welfare, which it is the function of the union to safeguard.

Through these devices and others the union becomes the machinery of what has come to be known as industrial democracy. The collective bargaining conference becomes a kind of legislature. The hierarchy of shop stewards, business representatives, foremen, supervisors, and managerial officers of the company becomes the executive branch of democratic government in industry. To be sure, the employer is not displaced as the highest officer in the hierarchy; but he cannot now freely exercise power over his employees. He is a power made responsible.

The union thus becomes the authority which asserts and enforces the concept of the worker as a citizen in industry and which declares loudly that the worker is not a commodity.

The union movement opens up new possibilities for conscious cooperative activity. For the union is both evidence of the desire for group life and an example of its achievement. Through it a group in the factory can achieve common goals—fellowship, mutual self-help, co-

operation for efficiency, safety, and comfort. Without agreement through group organization, these would be out of reach. Untold possibilities for reducing conflict and promoting the common welfare can be realized once a social mechanism such as the union appears, through which consensus can be reached and action taken.

The union is also an educational institution; it has often been called the practice ground for political democracy. The local union is itself a small-scale democracy. There the worker sometimes first develops his understanding and appreciation of the advantages of political democracy. He becomes aware of his stake in politics. The union encourages him to be articulate while at the same time giving him the organizational mechanism through which he can produce results.

Through political action, if not through its activities in industry itself, the union provides a weapon with which the wage earner can fight the problem of general economic disorganization and unemployment. This is perhaps the major concern of the political arm of unionism in the United States.

Finally, unionism is winning for the worker a much improved status in society. Although the wage earner is still below the white-collar worker in status, the participation of the union representative in the community leadership from which he was not long ago excluded is a symbol of progress toward social equality. If the wage-earning population of the United States looks more like a middle class than a proletariat, the achievement is partly the union's.

Yet how can a union increase the income of its members substantially if the price of labor is held down by the competitive forces of the market place? The union is

quick to learn what needs to be done. It must, in the time-honored slogan of unionism, "take wages out of competition." But if it does so, its practices are an attack on the competitive system.

And how is industrial autocracy to be curbed? The employer is commonly an autocrat to his employees because he is compelled to obey his customers. They will take their business to a competitor if he does not give them what they want. If customers want low prices he will "dictate" low wages to his workers. If they want no coal in July, the coal dealer will "autocratically" lay off his truck drivers. The union can curb the employer's autocratic power effectively only if it can protect him from the competitive pressures of the market. Again, the union must aim at the restriction of competition.

In short, the union will be a success when it is disruptive—and because it is disruptive. True, we may measure the good behavior of unionism by its respect for the competitive price system. Many of our editorial writers and congressmen and most of the American public alternate bouquets and brickbats by this test. The success of unionism is measured, however, only by achievement; and the hard fact is that it cannot be attained by good behavior. Where there is conflict between the needs of the worker and the accepted pattern of economic life, the union's power to satisfy the worker is also the power to destroy the pattern.

This is the great labor problem of our time. Unionism is destroying the competitive price system.

Paradoxically, the wage earner in the United States is far from being a radical. He has not identified the competitive price system as the source of his difficulties because he carries no such abstraction in his mind. And

unionism, through which he speaks, daily declares its loyalty to competition. What it does to the economy it does in pursuit of immediate goals. It disregards the revolutionary longer-run consequences which the radical would celebrate. But unionism is no less disruptive for all its good intentions.

The gigantic work stoppages which have occurred since the war have diverted everyone's attention from the long-run consequences of unionism. The strike is a crucially important immediate problem which we cannot ignore. It paralyzes production, and it is dramatic. But the real labor problem is its aftermath. To believe otherwise is to mistake peace for order and the beginning for the end. For if wage disputes call a halt to production temporarily, their settlement may disorganize it permanently. Unionism will destroy the price system by what it wins rather than by the struggle to win it. It sabotages the competitive order, not because the economy cannot weather the disturbance of work stoppages but because it cannot produce high output and employment at union wage rates. Nor can the economy survive the union's systematic disorganization of markets and its persistent undercutting of managerial authority.

The worker's grievances are old, but this problem is new—so new that its consequences will be generally apparent only in the years to come. Union power is only now finally established. During the late 'thirties the nation became acutely conscious of the union movement, for its growth was turbulent and the struggle over it bitter. But in this period unionism had neither the membership nor the coordinated national strength to exercise the power it can now display. During the war its might was subordinated to the emergency powers of government.

Today the movement is on its feet at last and out from under wartime wage controls. It is a different movement and a stronger one than in the past.

What is it about the price system that the union cannot tolerate? Why cannot workers attain their goals by moderate reforms which leave the basic structure unchallenged? The answer follows from a description of the system itself.

The characteristic features of our economy can be read in the term "competitive price system." The essential fact about it is that order is produced through the instrumentality of price with a minimum of discretionary group control. It needs to be called a *competitive* price system to distinguish it from price systems built on other legal bases. In our society the fuel in the social engine is the self-interest of thousands of independent entrepreneurs. But one can also imagine a price system operated through government ownership of business enterprise or one composed solely of consumer cooperatives.

The concept of an economic system calls to mind a method of "doing business" or "earning a living." These impressions are inadequate for an understanding of the role of price in the American social-economic order. The system has to be seen as a social mechanism for performing certain functions necessary to the general welfare.

The main job of the economic system is to economize: that is, to use scarce resources so as to achieve the maximum satisfaction of human wants from them. Whose wants are to be satisfied, whether those of a minority or a majority, will depend upon the politics of the society. In a democracy the wants of the majority presumably set the society's goals. In any case the economic problem

is given in the discrepancy between scarce resources, on the one hand, and the unlimited wants, on the other hand, of whatever group in a society can control the economizing process.

The difficulty of maintaining a prosperous economy inevitably directs the public's immediate attention to problems of monetary management and employment. The result is that we begin to talk and act as though the function of an economic system were to maintain itself in running order, avoid inflation, and create as many jobs as possible. But granted that these may be intelligent goals of public policy, they are not the goals of economic activity any more than it is the function of a locomotive not to burn out a bearing.

The essential task in the economizing process is intelligent choice among alternative uses for the limited resources. For an individual and a society alike, the difference between a wise and foolish choice is logically clear cut. To sacrifice a greater value to gain a lesser one is senseless. And to refuse to sacrifice a lesser value for a greater one is no wiser. What is sacrificed to gain a commodity is, in familiar terms, its cost. A society chooses intelligently, then, when costs are minimized.

The economizing process therefore requires a systematic method for comparing values, for calculating costs, and for allocating resources in accordance with choices made. All this is done through price in our economy. Values and cost are measured in price, the enterprise is controlled through cost-price relationships, and the allocation of resources to the enterprise is governed by price.

The price system necessarily involves many particular operations, each intricate in itself. Wants or choices are

indicated by consumers acting as they freely decide in purchasing at a price, and changes in consumer demands are reflected in price movements. An elaborate set of legal rules is required to make production respond to these consumer purchases. Specifically, production must be regulated by the requirement that price cover cost. Costs in turn are prices on resources, reflecting values of the resources in alternate uses. This is achieved by arrangements which set price on resources in any given use according to the value of increases in production which could be had by applying the resources to the best alternative use.

The distribution of income is determined as a by-product of the pricing of productive resources, since the wage income of a laborer is determined when his productive capacity is priced as a resource. Workers' preferences with regard to conditions of work are expressed through the terms of the wage bargain, just as consumer preferences are indicated in the market for consumer goods and services. If workers feel a strong desire for safe and comfortable conditions of work rather than remuneration solely in money income, employers competing for their services will take account of preferences.

In short, three characteristics distinguish the price system. Wants or choices are indicated by individuals or very small groups, acting independently, buying at a price; costs are calculated with reference to the value of resources in alternative uses; and production is governed by the rule that cost must not exceed price. The complexity and impersonality of the system are at once apparent.

Needless to say, the price system is by no means the perfectly competitive economy of the economists or anything closely approaching it. It is shot through with

monopoly and other imperfections. But these do not destroy the major outlines of the structure any more than misrepresentation of the population through improper apportionment of legislators destroys the basic structure of political democracy. Great as these imperfections are, the society remains dependent upon the framework of the price system just as it does on the framework of political democracy.

It is therefore naïve to say that the price system today is largely nonexistent. The objection is no more serious than that of college students who with the new learning of their first course in political science tell their less enlightened friends that the United States is not really a democracy.

When production is undertaken, it is largely at the instigation of profit-seeking businessmen; when production fails, it is because the opportunities for expansion are inadequate in their eyes; when there are maladjustments in the economy, it is because relative prices are improperly adjusted; when resources are not used aimlessly, it is because under the rules of a price system their owners can profit from their systematic allocation; when production is responsive to consumer wants, it is because the consumer may express his desires through the market place. For good or bad, when "things get done" in the economy it is largely through the pricing mechanism. Even the economic activities of government operate through it in the recruitment of labor, equipment, and raw materials.

Consider now some of the problems which a worker must face in such a system.

As is well known, millions of people live on inadequate

incomes. Income studies for 1935–36 showed that almost half of all families and individuals in the United States were then receiving less than $1,000 in annual money income. And although the situation has improved since, in 1945 over 40 per cent received incomes of less than 2,000 devaluated postwar dollars.

It is therefore not surprising that the wage earner is critical of the method through which his income is largely determined. His income is his claim to survival, to status, and to a comfortable and happy life. It should be determined, he might suppose, with reference to his needs and aspirations. But in a price system his wage is set as a price on a resource. It is more a cost of production than a share of income.

Furthermore, income inequality feeds on itself in a price system, for income that is not consumed reproduces. Those who least need more income can most easily make it, and those who most need it can derive it from nothing but their own labor. The power to bequeath income-producing assets is also the power to handicap the entrants in the economic race of each new generation. The competitive struggle for income is never fairly started. Nor does free public education equalize opportunity when it is largely limited to elementary and secondary school training and is deficient even at those levels in many localities.

In spite of the development of extensive government services to individuals and the heavy use of income taxation as a means of equalization, one aspect of the problem of inequality is hardly touched. The wage itself is a mark of status, and a high wage is a source of prestige. Inequalities in actual income aside, workers take offense at low wages. When workers opposed wage ceilings

during the war, they were not objecting simply to limits on their incomes. Rather they prized high wages even if taxes subsequently appropriated their income gains. The pay check itself was a symbol, because in our economic order men are judged by its size.

Insecurity of income is a distinct problem in itself, with its roots too in the price system. There have been and still are, in some parts of the world, economic systems in which every member of the organized social group can claim a share of the group's income. Where the price system has developed, it accomplishes a revolution. Claims to income then become contingent upon the offer of a productive service on a market. Security of status is replaced by the insecurity of a free-exchange relationship which binds no one. It does not matter how important income is to the worker, how desperate his needs may be. His claim to income may nevertheless be canceled. A change in consumer demand, an innovation in productive methods, a disabling accident, any of these may reduce him to poverty. He may plead faithful service, skill, and integrity; but he will not be heard. The price mechanism does not ask if a man is deserving; it asks only "Does he produce for the market?"

The personal liberties and rights of the worker are no less important to him than his income. The right to a job, protection against arbitrary authority or discipline, and assurance of a fair settlement of grievances—all are highly valued. But unless the wage earner can win these liberties through unionism, they are no more adequate and secure than income itself.

The fact is that the worker in a price system must literally buy his liberties and privileges from the employer, aside from those which intelligent employers know will

"pay off" in greater productivity. The employer is not compelled to respect any privileges beyond those basic political rights guaranteed all citizens. He comes to respect the expensive wishes of his employees for the same reason that he pays wages—it is a condition of obtaining their services. His concessions of grievance machinery or of a system of job rights are part of the pay for the job. While one employer may seek to hold his workers with high wages, another will do so with a plant gymnasium —perhaps even a masseur.

Because what he can pay is limited by the worker's productivity, his concessions can hardly be generous. And since what is paid in nonmonetary remuneration is not paid in wages, workers can afford to insist upon rights and privileges only to the extent that they can afford to give up wage income, which is its alternative. The lowest-paid workers will therefore also suffer the greatest indignities. Highly paid potters can successfully insist upon helpers to lighten their work; low-paid pecan shellers in the South cannot even ask for comfortable conditions of work.

In our political order the worker as a citizen learns to prize liberty and his civil rights. But liberty and civil rights on the job rest on nothing more than the market value of his services. The worker's sense of wrong is understandable. His complaint is not merely that the price of labor is not high enough to guarantee a minimum bill of rights in industry. A principle is also involved which directly challenges the price mechanism. It is that the price on a man's labor is an indefensible basis for his personal liberties in a society committed to the ideals of individual worth and dignity. Workers do not wish to be

told that they can have their liberties only if they can afford them.

The problem of industrial autocracy can now be seen more clearly. The virtues which workers find in political democracy lead them to think of the economic order as a kind of government in which are to be found both rulers and the ruled. The analogy makes the employer a kind of dictator and the workers his subjects.

Employers have often taken advantage of their close relations with those in positions of political power to corrupt the democratic political process, as the history of injunction shows. Yet the charge of industrial autocracy does not turn upon these culpable practices. The complaint is rather that the employer is an autocrat in his own private industrial domain. It is because economic power in industry has been handled by employers in a dictatorial way, despite the democratizing of political life, that workers have become so sensitive to it.

It is true that in a price system the immediate source of authority is the entrepreneur or, as the worker sees him, the autocratic employer. But his decisions are governed by price-cost calculations. His strongest and most immediate motivation is in prices and price movements; and he is and must be relatively insensitive to the wishes of his workers except as they influence price.

This explains why the employer in a price system is an autocrat when he neither wishes to be nor enjoys exploiting his employees. He is caught in a mesh of price-cost relationships which inevitably force him to courses of action opposed to his employees. And in a price system the employer must go further to insist as a matter of principle upon a valid but outrageous proposition,

really true and false at the same time, that what he does is not the concern of his employees.

The single problem of mass unemployment sometimes looms so large that all others are forgotten. In the depression of the 'thirties one in every three workers was banished from the economy by unemployment. Except for charity and relief the unemployed are disfranchised as consumers and dispossessed of their "right" to work. What is worse, they come to be regarded with suspicion as an inferior citizenry whose political rights may be questioned.

Everyone knows that money has something to do with a depression. But the fact that ours is a money economy is not sufficient to explain depression. The instability of our economy is due to our particular use of prices. In a price system, price-cost relationships control production. When price maladjustment occurs, output falls and the worker loses his job. The complexity and sensitivity of the price mechanism makes it inevitable that gross maladjustment will repeatedly produce collapse.

It has often been said that our economy turns men into commodities. More a slogan than a scientific observation, the statement nevertheless sums up the grievances of wage earners. The worker believes that he is treated like a commodity, and he objects. His is a protest against the harshness of a system in which the livelihood of his family has no more substantial a foundation than sales value and which is so contemptuous of human rights as to make them equally insecure.

The price system is, as workers often feel it to be, a harsh system. It is powered by no bonds of sentiment or fellowship among its participants. It is a mechanism

which works best when each participant uses it as a vending machine. For what he puts in he takes something out. Even if it is mechanically admirable, it looks more like an anthill than a society. In a sense it reduces to a commodity not only labor but affection as well, for "good will" sells on the market place. It delegates great power to the entrepreneur and then fastens him in a vise of cost and price where he is compelled to act with no more regard for his workers than for any inanimate resource. Its responsiveness to changes in consumer tastes and its insistence on a kind of administrative efficiency keep in motion such a never-ending process of reorganization that security for any participant is impossible. It is vigorous in the pursuit of what is profitable, remorseless in the abandonment of a losing venture. It is indeed a system in which the measure of a man is his money.

Nevertheless, it would misrepresent the conflict between worker and price system to make no explicit mention of the system's virtues. For all its harshness and its impersonality, it is a sufficiently important value in our society to justify some alarm at the wage earner's hostility to it.

The system seems to enjoy little conscious support from the citizenry as a whole, which pays it much lip service while undermining it with legislation restricting the market mechanism. But its operations are complex, and its benefits only indirectly produced, in contrast to unionism, where result closely follows action. These circumstances no doubt hinder appreciation of those virtues which the system can undeniably claim and which even its most vigorous critics grant.

The legitimate objections often raised to private prop-

erty, private enterprise, or to any of the other legal foundations of the competitive price system need not be denied; for it is one thing to defend that particular type of price system to which is attached the term "competition," and quite another to defend the pricing process, which may be made to operate over other legal supports than those of competition. In the pricing process society has discovered a remarkable piece of machinery for performing functions which must be performed one way or another in every society.

The value of the price mechanism can be suggested by spelling out the analogy with political organization. Any price system is a method of social cooperation which makes possible more or less democratic control over the production of goods and services. The consumer-citizen freely expresses his preferences through a kind of voting with dollars. Those to whom the active authority over the administration of economic affairs is delegated—the administrators of the business firm—are held at least roughly responsible to their consumer constituency, because they produce under price-cost relationships which limit their own arbitrary authority. The administrator whose product is not satisfactory to the public can be "turned out of office" through business losses, and he will be kept in office only so long as consumers prefer his product to others on which they might spend their money. In a competitive price system his removal is automatic; in other price systems removal may require political authority. Admittedly the system works very imperfectly, but so do all other social institutions, including those which are proposed to replace it.

Paradoxically, the more particular virtues which can be argued for the price system are linked directly with

its major deficiencies. To admit the deficiencies should not be to deny the virtues.

The system can claim the merit of facilitating, because it can coordinate, a high degree of efficient division of labor. In the interests of efficiency in any large group, policy making must be delegated to a specialized group, which will necessarily be a very small minority. If this inevitably produces the abuse of power which workers call autocratic, the specialization of the entrepreneurial function is nevertheless a major accomplishment of the mechanism.

The price system permits free occupational choice. The alternative to it is the assignment of tasks by political authority—a labor draft. However democratic this alternative might be made, through popular control of the political authority, at best it will be democracy without a valued liberty which is permitted in the assignment of tasks by price. But if labor is not allocated by political authority, it must be induced by a system of differential rewards with each task bearing its appropriate remuneration. Since this is the source of income inequality and insecurity, a paradox again emerges. The worker in a price system enjoys free occupational choice, which is to admit that he is a commodity.

The system is driven to efficient production by constant pressure from consumers to reduce costs of output. It is possible for the entrepreneur to compare the efficiency of alternative methods of production because all inputs have a price, a statement of cost in relatively objective terms. These merits of the price system must be set against the system's ruthlessness in the abandonment of old methods of production upon which workers may be dependent for their incomes. Innovation is less ob-

structed in the price system than in any alternative form of economic organization, and this may be an enormous gain for the public at large even if the earnings of capital and labor are consequently never secure.

The price system achieves what many other forms of economic organization have achieved either not at all or very imperfectly—the subordination of production to consumption. The price system is a mechanism for producing what consumers want, not for adjusting consumption to tradition-bound methods of production, as in precapitalist times. Again, this advantage is achieved at the expense of a bill of rights in industry which, if it existed, would enable workers to protect vested interests in their jobs.

Above all, the price mechanism is a system of voluntary social organization which permits each individual a very large measure of freedom as to the nature and degree of his participation in cooperative economic activity. It has freed the individual from the confines of a permanent status fixed by birth and has opened up to him within limits opportunities to choose his place and activities in the economy rather than have them imposed upon him by the accident of birth. Gains such as these are to be valued, even if the other side of the same coin is man as a commodity.

Finally, some defense can be made against the worker's bitter complaint that the system does not work, that it repeatedly collapses into depression and unemployment. The system works badly, it is true; but it does so largely because it endeavors to do so much. It seeks efficiency through a detailed division of labor. It must then coordinate thousands of specialized functions. This it attempts to do subject to democratic control and with a minimum

of restriction on individual liberty. It is more surprising that it works at all than that it fails.

These merits of the mechanism on which the worker's grievances are focused do not wipe out the outrageous injustices the system works upon the wage earner. They show all too clearly, however, that the hostility of the wage earner toward the price system sets value against value rather than good against unmitigated evil. Were it not for this, the labor problem would be much simpler.

We shall see in the pages to come the disruptive consequences of the union, an anticompetitive institution in a competitive environment. Waste—the loss of income through misuse of resources—is easily hidden; but unemployment is not. And the eventual displacement of the price system by the further extension of political authority into economic life cannot long be obscured, for political authority will reach into the economy to find expedient solutions to problems of incompatibility between unions and the system.

It is odd that so fundamental a conflict should be so little noticed. In the United States, where the union movement has not taken the deliberate revolutionary turn which the socialists and communists hoped for it, it has been left pretty largely to unionism's foes to assert its incompatibility with the competitive system. Curiously enough, they have been wrong in their allegations until recently, for they have long been warning us of the consequences of power which unions did not then possess.

One might have expected the friends of unionism to be the first to recognize the conflict, as it has now emerged, for they should have been aware of the ambitiousness of the union program and its antagonism to the rules of the

competitive game. They should not have been deceived by the conspicuous surface conservatism of the labor movement. It should be no more surprising to them that conservative union policy should itself engage the union in anticompetitive practices than that the corporation, everywhere identified as the typical institution of modern economic life, should also be a powerful instrument for the transformation of the price system.

Perhaps friends of unionism have preferred not to recognize the problem, as though to do so were to condemn unionism as dangerous. They may be less deceived than fearful. Or they may be like many businessmen and labor leaders who are happier in ignorance than in knowledge of the revolutionary effects of the organizations with which they bargain or which they lead.

There is more to the explanation, however. The attitude of many Americans toward their economy is a combination of hostility toward those aspects of the system which bear most harshly on them and a contrasting childlike faith in its general virtue and unshakable strength. While hostility encourages the proliferation of devices to soften the rigor of the competitive price system, faith dulls the perception of their disruptive consequences.

Unionism is such a protective device. Many of its leaders are loud in their protestations of loyalty to the economic order, and its record is one of conservative reform coupled in much of its history with bitter warfare on socialism. It has been considered, in contrast with its brother movements abroad, to be conservative and capitalist-minded. Little wonder that it is rarely perceived that unionism in the United States now is as revolutionary in consequence as it is conservative in intention.

So many gradual developments in economic institu-

tions, to say nothing of political policy, are undermining the competitive price system that it may seem quite unnecessary to establish the fact that unionism is seriously at odds with it. But the social scientist as diagnostician for a sick society is not satisfied to know that the patient may be dying; he wants to know the cause or causes. If he entertains any hope at all for recovery, he must understand them all. Public policy may seek to save the competitive price system by modifying it, abandoning a little to save much. Or it may prolong its life in the conviction that additional experience with the administration of public control of economic life is sorely needed as a prerequisite to drastic reorganization. Those who welcome the death of the competitive price system will have no less need of a comprehensive diagnosis. In the union's relation to the competitive price system is to be found the key to understanding the problem of the union's integration into any other kind of economic order.

Paradoxically, the very policies of unionism which in the years to come will undermine the competitive price system may have very important contributions to make toward its short-term stability. Perhaps this again is an explanation of the common failure to see the long-run consequences of this anticompetitive institution. Economists have not yet settled their debate over the effect of union wage rigidity on the severity of the business cycle. But even if everything that is claimed for unionism on this score is granted—if it can minimize fluctuations in business—it will nevertheless produce its disruptive long-run consequences. Even if it stops the roll of the ship, it will nevertheless sink it.

CHAPTER II

MONOPOLY

"MONOPOLY" is both a neutral scientific concept in economics and a term of opprobrium. When written in the former sense, it may unfortunately be read in the latter. Yet since the union will disrupt the competitive system primarily through its control over the price of labor, there is no better way to demonstrate its power than to consider it—but not condemn it—as a monopoly.

The union is a monopoly because it can and does raise the price of labor to levels which will in a competitive price system inevitably cause waste, unemployment, inflation, or all combined. And union monopoly destroys the price system because it produces these consequences to a degree which the economy cannot survive. The foundation of union monopoly is the strike. Its power is in turn a product of the new size of the labor movement, organization by industry rather than craft, and policy making in unions on an industry or national level. As is to be expected, the power of the strike varies from one situation to another. Some unions will never achieve significant monopoly strength; their wage rates will increase only with productivity. Strictly speaking, "the union" is not a monopoly; only this or that union is. But on the other hand many unions are strong enough to set in motion wage changes which ultimately sweep over the whole economy. As a whole, union monopoly is more than the sum of its individual parts.

Because the consequences of unionism's new strength

are not yet with us, it is far from obvious that the union is now a powerful monopoly. Until its consequences appear—and perhaps even later—the proof of monopoly must rest on an analysis of the wage-making process.

Certain patterns of wage determination include internal checks confining wage rates within limits which are neither too high for continued high levels of employment nor inflationary. These are here defined as "competitive" wage rates. Conversely, in other patterns of wage determination these internal checks are weak or missing. The union can control wage rates monopolistically because *under strong unionism these checks or limits necessary to maintain "competitive" wage rates are inadequate.*

Competitive rates, as here defined, are not those wage rates which would be found in the economist's hypothetical perfectly competitive society, nor do they at all closely approximate such "ideal" rates. In the absence of union power, wage rates reflect a wide variety of imperfections in competition, including employer monopoly power over wage rates.

And these nonunion rates may be no more desirable than union monopoly rates. To argue that the union is a monopoly is merely to say that union wage policy will now give rise to a special and serious unemployment-inflation problem which has not heretofore troubled the economy. In the absence of union power, other problems of wages, prices, and output have in fact been serious. The severity of business cycles may, for example, be due in part to characteristics of nonunion labor markets which unionism remedies.

Competition is so much taken for granted that we come to think of competitive prices and wages as "natural" and in some sense automatic and inevitable. Actually,

however, natural, automatic, or inevitable forces driving prices and wages to competitive levels simply do not exist. There are what we call competitive forces but they are the product of man-made rules. They work automatically and inevitably only under specific circumstances. Because unionism alters rule and circumstance, these competitive forces are ineffective in maintaining wage levels which neither reduce employment nor produce inflation. No longer is there any presumption that strong tendencies toward such competitive rates prevail. The structure of the market is drastically changed by strong unionism, and the regulatory powers of competition are disorganized.

Nor should the new market forces such as industry-wide bargaining and national union wage policy, be expected to hit upon competitive rates either by pure accident or as an outcome of labor's tug of war with management. As will be explained, downward pressures on wage rates are not at all like the upward pressures, and they do not reach an equilibrium.

The market forces which operate when unionism is established include many which might be thought to impose effective upper limits on wage movements. Competition among firms for customers will presumably still constitute a strong pressure for cost reduction. Other forms of competition will also persist between industries, machines and hand labor, and nonunion and union workers. All these would seem to threaten the union should it attempt to raise labor costs significantly in any one process or industry. And foreign competition might be thought to restrain the union from excessive increases for the economy as a whole or in industries responsive to competition from abroad.

In addition, employer resistance in the bargaining process, public opinion, and self-restraint become possible limits on union wage policy. Self-restraint may arise from internal political conflicts or processes within the union itself, from the fear of high prices, or from the prospect of government regulation of unionism. And the very consequences of union monopoly—unemployment and inflation—might themselves be thought to bar the way to wage increases.

It will be argued in the chapters to follow that none of these possible limitations is adequate, either singly or in conjunction with others. No effective limits can be found. And the wage rate is not merely adrift, having broken from its moorings. It has been torn loose by unionism and moves with union power behind it.

The necessity of careful analysis of the wage-making process arises from the absence of clear empirical evidence of union monopoly.

Evidence of a kind appears daily in the press. It is worth almost nothing. Many people will take the news of a major wage gain following a strike as proof of monopoly. For every person who does, another will take it as indication that the union is maintaining a competitive rate by keeping pace with increasing productivity. Even if it were possible to wait to see the consequences of the new wage rate before pronouncing it monopolistic or competitive, agreement would be hard to find, for the truth cannot easily be extracted from the consequences. Years may pass before the industry completes its adjustment; and in the meantime other wage gains are won, the technology of the industry advances, and the market for

its product expands or declines. The effects of the wage change become intertwined with countless other changes in the market place.

Today, of course, we live in the consequences of yesterday's unionism. Two decades ago differentials between union and nonunion firms in the older centers of unionism were apparently large and lasting enough to drive production to nonunion firms. Monopoly power then perhaps explains the decline in the 1920's of the union clothing centers and the organized sector of the bituminous coal industry. More recently, industry-wide bargaining has already shown some tendencies to restrict output through high wage rates, as in the now fully organized coal industry, which has been losing output relative to competing fuels.[1]

But no one can be sure that these developments are effect and not coincidence. And if effect, they are not necessarily the effect of monopoly wage rates. A union may raise wages sharply and yet do no more than win competitive rates. If the evidence of monopoly in these cases is plausible, it is still not convincing.

In rare cases there is little room for doubt as to monopoly. The high-wage policy of the National Window Glass Workers finally priced its members out of the market. The death of the union was both consequence and dramatic proof of its power to raise wages for a time.[2] But a theory can hardly be built on the evidence of a few scattered examples of short-run power.

As a substitute for analysis of the wage-making process, a history of past wage movements is as inconclusive as an empirical case study. It can only describe the infancy and adolescence of an institution now showing the strength of manhood. Since the problem of union mo-

nopoly is a new one, it is useless to look in the record for proof of what unionism can accomplish now and in the future.

Not even modern statistical techniques can prove union monopoly or its absence. Statistical tests of monopolistic commodity prices are made possible by inspection of price-cost relationships or profits. This is impossible for unionism. The most promising possibility for statistical identification of monopoly and competitive wage rates is in measurement of the volume of employment in various industries on the supposition that monopoly will betray itself in unemployment. But high wage rates do not always cause unemployment in the same market. And in any case this test of monopoly cannot be used when it might be most desirable to use it—in a period of general unemployment.

Statistics, it goes without saying, can distinguish between union and nonunion wage rates. But the nonunion rates may be excessively low.* It would be an egregious error to assume that nonunion labor markets are a correct standard and that a high wage rate is inevitably a monopoly rate. The pattern of wages in nonunion markets is strikingly different from the economist's picture of rigorous competition.

Just as an analysis of the process of wage determination is needed to prove monopoly, so it is required to clarify

* A recent statistical study of wage rates in union and nonunion industries would seem to provide satisfactory evidence that unions can and do raise wage rates significantly, a fact which appears as obvious to the layman as it has been dubious to the economist. But the study cannot determine whether union rates are monopolistic through statistical analysis. As the writer of the paper is willing to declare, so far as mere statistics are concerned, the union rates may be more truly competitive than the lower nonunion rates. A. M. Ross, *Trade Union Wage Policy* (University of California Press, 1948), p. 133.

misconceptions about particular practices of unionism which superficially look like monopoly but are not.

Mere collective bargaining itself has been called monopoly. To be sure, the economist knows that in a perfectly competitive economy, in which atomistic individuals buy and sell but do not discuss or control prices, wages are subject neither to collective action nor to bargaining. But this simple proof that unions violate the analytical assumptions of a hypothetically perfectly competitive system is itself of little importance in proving significant power over wages. Nor are restrictive practices and jurisdictional warfare necessarily monopolistic. To label them monopoly is, in the main, to confuse cause with effect. Moreover, the union shop, the closed shop, and various practices by which unions limit membership are, like restrictive practices, part of the union's tool kit. Contrary to common impression, there is nothing inherently monopolistic about them.

Union monopoly comes from no bag of tricks. It is motivated by an active opportunism, and powered by the strike. It is effective because no market forces are sufficient to restrain it. The proof of its unintended but eventual success in disrupting the economy is found—to repeat—in the analysis of the wage-making process, with which this book will be concerned.

Many of the friends of unionism will find it difficult to think of the union as a monopoly. Their objection is implicit in the slogan, "Labor is not a commodity." If it is not, it follows that union action to raise wages is not monopoly.

Now one may be quick to endorse the sentiment that people deserve more considerate treatment than things,

which is a meaningful interpretation of the slogan. But this does not deny that labor is bought and sold on the market, that unionism through its power in collective bargaining does establish what is technically called a monopoly, and that union monopoly will disrupt the economy. To insist that labor is not a commodity is to by-pass these issues and register simply a moral objection to the treatment of labor in a price system.

It may be painful but it is not illogical to maintain that unionism is both disruptive and desirable. If competition is ethically defective and more happy alternatives are at hand, its disruption by monopoly unionism should be applauded and the fact of monopoly not suppressed. Then too, even if the union is a monopoly, it nevertheless differs from those business enterprises which deliberately exploit the consumer for the benefit of an already favored minority. Unions are not profit-making organizations, for one thing. More important, they have always been and are today the defenders of some of the highest ideals of a free people and a democratic nation; and this is a role into which corporate monopoly has never quite fitted.

CHAPTER III

UNION WAGE AIMS

IS THERE any limit to the demands of labor as to wages?" Gompers was typical of labor leaders past and present when he once replied that this is a "foolish" and "utterly immaterial" question. But it must be answered if the union's monopoly power over wage rates is to be proved.

The American labor movement has long proclaimed the virtues of "a fair day's pay for a fair day's work." Intellectuals attached to the movement are ready and eager to explain what this means. But the union leader himself will not answer the critical question, "What is fair?" He will only express an attitude. He thinks like one leader who said: "I know that we are living under the wage system and so long as that lasts, it is our purpose to secure a continually larger share for labor, for the wealth producers." [1]

Unionism has traditionally insisted on "more, more, more, now." Its healthy pragmatism has been honestly expressed in the vigorous "All we can get!" attributed to John Fitzpatrick of the Chicago Federation of Labor.[2] With more sophistication spokesmen for the newer unions argue that "workers' wage demands, based on the contention that the fruits of industry are divided inequitably between owners and workers, constitute a constant pressure for a larger share of the nation's annual income." [3] The claim to a larger *share* of the national income may sound less aggressive than the older "more,

more, more, now." But there is no evidence of any significant difference in attitude.

Interviews with union leaders, local and national, are revealing. The union leader will ordinarily shift ground more than once in the course of an interview on goals, as did one official in a plumbers' local who, after declaring that his men had already won as high a wage rate as they could possibly obtain from their employers, admitted that he would seek a still higher rate if any of the other building-trades unions raised their wage rates.

But the union leader is not troubled by these discrepancies. Nor should he be. He spends little time thinking about long-run problems and does not expect to be a competent theorist about them. Ultimate income goals raise only an academic question in his mind. Wages are so far from satisfactory by any standard that he must be alert for every immediate opportunity for a raise. The long run, he believes, is not his worry.

Nevertheless, union leadership is from day to day engaged in persuading employers, the public at large, and even itself or its constituents that workers are entitled to higher wages. In arguing around the bargaining table and appealing to public opinion, leaders espouse various principles of wage determination. Their criteria throw light on income goals, but their skillful use of the criteria is even more informative.

The cost of living was once a common criterion of a fair wage. It is now being used as an argument for adjustments in wages to keep up with rising prices, but it has long been in disfavor as a basis for establishing the basic rate. The "living wage" and the "saving wage" first displaced it. These two concepts protested a wage just covering the cost of living. Not mere survival but com-

fort and the security of savings were the right of every worker. In actual fact, the two criteria simply claimed for workers larger incomes than they at any time were receiving. "Subsistence," "decency," "comfort," and "saving" standards of living can be defined only roughly; and they are continually being redefined upward as the national income rises. In the early 1900's, when John Mitchell was a great figure in American unionism, he believed that an annual wage of $600 was a reasonable minimum toward which union wage policy ought to be aimed!

All these earlier principles are now subordinated to others whose history is equally long but whose popularity is now greater. Today one widely accepted principle—earlier known as the "social" wage—declares that wages must be high enough to create the mass purchasing power necessary to buy back from industry its ever-increasing product. The CIO postwar campaign for wage rate increases was built on it. Another principle, much publicized by the great postwar General Motors–United Automobile Workers strike, maintains that wage rates should be adjusted to the employer's ability to pay, measured by profit. This criterion is varied; sometimes ability to pay is measured by selling price and often by general business conditions.

The ability-to-pay criterion also supports claims to increases based on changes in the efficiency of the firm or industry. Ordinarily, however, union leaders view such claims as hinging on a distinctly different principle—productivity. Unions use the productivity criterion whether increased output per worker is due to increased investment, to technical improvement, or to the worker himself.

Comparative rates are a common criterion. The union simply claims an increase by pointing to higher wages paid to comparable workers elsewhere. In some cases the comparison is with wage rates in general; sometimes it is with related industries; or it may be with other firms in the same industry. This principle contradicts ability to pay. A union representative will argue in one negotiation that wage policy should exploit fully the individual employer's ability to pay, only to reverse himself in another negotiation by insisting that wage rates should be standardized for an industry or skill regardless of differences in the financial condition of the firms. He is, of course, not at all foolish.

The comparative wage criterion permits certain differentials and forbids others. "Equal pay for equal work" is the traditional rule. It commonly permits inequalities based on differences in skill, responsibility, and training. And it generally insists upon the elimination of regional differentials in wages for fear of damaging the competitive position of high-wage firms. Referring to the North-South wage differential, an editorial in the *United Rubber Worker* declares: "The union cannot quarrel with any corporation when it attempts to take advantage of cheaper power and lower freight rates and other advantages [of the South], but we certainly cannot permit them much longer to exploit cheap labor." [4]

But where the employers of comparable workers in different geographical areas do not compete with each other, unequal rates are not a threat to the high-wage firms. The results are illustrated in a negotiation in the newspaper industry. The arbitrator observed:

. . . I don't want to start an argument on this, but I sat on the Knoxville case. The Knoxville union contended we should

level the scale up more closely to the Chattanooga scale, and in my award I think you will find a reference to the fact that I thought we ought to eliminate some of these pockets in the South. But now, if Knoxville claims you should level up to Chattanooga, and then the Chattanooga printers say we ought to maintain a differential over Knoxville—I mean, just where do we get off on that? [5]

Workers do not believe that unemployment in their skill, industry, or market proves wage rates too high. It might be thought that unemployment would provide as good a criterion as ability to pay or productivity. Actually, unions wisely refrain from using anything so dangerous. They can believe that a shortage of workers justifies a wage increase without ever agreeing that unemployment calls for wage reduction.

The significant fact about all these "principles" is that they are used by the union for expediency's sake. Having decided, for a variety of reasons, upon its wage policy, the union chooses that "principle" which is best suited in the time and place of the negotiations to justify its demands. The cost-of-living concept was a convenient "principle" for winning wage increases when prices were increasing after the first World War. It was dropped abruptly when prices no longer rose. Purchasing-power theories become principles when depression threatens, and are otherwise cast aside. Productivity "justifies" high rates for workers in efficient plants, while comparative rates "justify" raising the wage rates of workers in the less efficient plants.

Inconsistency in the use of criteria is therefore more revealing than the principles are themselves. No one should be surprised by this. The bargaining process itself

places a premium on putting up a good front. Theorizing about wage rates is essentially a disguise for the union's sensible opportunism. Significantly, none of the criteria have ever been fully accepted as principles even by those who have used them. William Green has called them "epithets"; [6] and both the AFL and CIO have hedged on them by denying their validity if used for wage reductions.

Such factors as the cost of living, productivity, and ability to pay do, of course, enter into the timing of demands and the strategy of bargaining; but they are not principles. They do not correctly express income goals. They are merely more acceptable ways of saying "All we can get!"

If "principles" are window dressing, what are the conditions and beliefs from which the union's opportunism springs?

Here caution is required. On the one hand, generalizations must not overlook the diversity of aim and philosophy from one union member to another, a diversity which is glossed over when the CIO "speaks for" its members. Nor should differences between membership and leadership be ignored. On the other hand, certain hopes and attitudes are presumably shared by most unionists. For that matter, unionists are much like nonunionists and "workers" like nonworkers.

Not many people do more than react favorably or unfavorably to immediate situations so far as wages and income are concerned. To be sure, the democratic bent in American thought may have turned the minds of a minority toward equalization of income as an ideal. But

in general people do not theorize about income. Nor do they develop a comprehensive understanding of actual or possible patterns of income distribution.

Of course, workers cannot argue that the employer is growing wealthier from their labor without becoming aware that their own incomes are shares from a total of limited size. Moreover, any equalitarian urge among workers carries with it some implication of sharing. Nevertheless, income aims are influenced by the actual planes of living reached by the middle and higher income groups, not by investigation of how large a national income might be available to be divided.

Partly because of ignorance unionists set impossible goals—goals which at the same time are reasonable in terms of family needs. It is arithmetically impossible to get enough large pieces out of the national income pie to satisfy the aspirations of the union member. A few years before the war average family income in the United States was roughly $1,500 a year; yet union spokesmen were commonly arguing that no family should have to live on less than $2,000 or $2,500 a year, and some thought anything less than $3,000 morally indefensible.

Although union goals are wholly inconsistent with the capacity of the economy to meet them in the immediate future, they are not meant as goals for a rosy future sufficiently distant to allow their eventual realization out of our steadily growing national income. They are put forward as what wage earners *now* deserve.

The rise in national income will never catch up with upward revisions in the goals themselves. The union man is "reasonably unreasonable" in his insistence that wages must be at least sufficient to enable a worker to support his family comfortably. But he is often unaware that

standards of living—even basic requirements of living—are social and changing rather than biological and fixed. We spend what we do on food, clothing, and housing not simply for nutrition and protection from the elements but because social customs prescribe certain elaborate forms of consumption. The worker is in fact insisting on no fixed goal at all. He is in effect demanding that he be put within reach of standards set by the middle and upper income groups. And as he moves toward them they move away, for the constant rise in the national income raises the accomplishments and standards of the middle and higher income groups themselves. Who can wonder that he will always want more than he has?

Actually the worker is being brought closer to the higher income groups by nonwage income—social security, public education, and other government services. But these benefits have apparently not moderated his wage goals. His mind is set on pay-check income.

Above all other considerations, union attitudes on income goals reveal one great challenge to the competitive price system. Income is a "right." High wage policies are morally justified because the workers' "rights" to adequate income take precedence over adherence to the rules of the competitive game.

In a price system, need is irrelevant to wage determination, for the wage rate is only a price on a resource. Notwithstanding, the pricing process can be justified morally in view of what it can accomplish for human welfare. The justification, however, is neither immediately apparent nor convincing to the worker, given his needs. The competitive standard may be necessary under a price system for full and efficient utilization of resources, but

the union standard is more simply one of "fairness" and "decency." In the eyes of the worker the conflict is between money and human beings or between a kind of mechanical perfection in social organization and humanitarianism.

An expression of this anticompetitive view is the "parasitic industry" argument which is a sort of classic in union circles and is widely accepted by the public at large. As a railway union leader has put it, "No industry is entitled to exist or survive in this nation that fails to pay the workers who maintain that industry a decent living wage." The appeal of the argument is easy to understand but it ignores the consequences in unemployment of driving low-wage firms out of business.

In the light of all this, the curious belief that unionism aims at nothing more than equal power with the employer is certainly unfounded. Union policy is not merely a counter to the employer's monopolistic domination of the market. True, at some stage in the growth of a union its power may temporarily be nicely balanced against the employer's power to exploit his workers through low wages; but there is no lasting balance between their power. And in any case, union aims are much more ambitious, even if power is lacking.

Monopsony—the situation in which a *buyer* has monopoly power with which he depresses a price or wage below competitive levels—is an important analytical concept to the economist. But it is of no importance whatever in understanding union aims. Where monopsony has existed in a labor market, a new union which forces rates only up to competitive levels will not necessarily cause unemployment in that market. But no union will wish

to stop at those levels. The monopsony concept describes a market situation; it has no light to throw on union goals.

For still another reason wage policy cannot bend toward the realization of competitive rates. As already explained, they cannot be distinguished from monopoly rates by mere observation. Hence neither the union nor the employer would recognize a competitive wage even if by accident they negotiated one.

Where a conflict between union income aims in an industry and the requirements of successful competitive operation of the industry is openly recognized, even conservative unionism insists as a matter of principle that union aims take precedence. Such a conflict is disruptive when hidden; it is perhaps even more so when clearly identified. For these recognized conflicts have encouraged syndicalist tendencies in the thinking of top leadership in the labor movement.

Syndicalist plans for joint union-management control of the market will be discussed in a later chapter. They range from Matthew Woll's proposals for an "industrial congress" to Philip Murray's plans for tripartite "industry councils." It should be observed here, however, that union interest in these potentially powerful monopoly devices stems from the necessity of extricating unionism from conflict between what it demands and what is realizable in a competitive industry.

Old as syndicalist proposals are in the history of the labor movement, almost nothing has come of any of them. Nor have they been made part of union policy. They remain largely blueprints for an uncertain future. Their significance is not that they prove the labor movement is consciously radical—it is not—but that they show

union leadership knows that union income aims and certain of our economic institutions are at odds. They know that if union aims are ever realized these institutions will have to give way. They do not realize that these institutions add up to the competitive price system.

In view of this, the possibility must be left open that unions do have long-run goals other than "more." Some labor leaders, while insisting that day-to-day wage policies are guided by immediate expediency, do look forward over a long period of time to a drastic revision of the whole organization of income distribution. They appear to be only a small minority, and yet there is at least one reason for believing that union indifference to long-run aims may be "a studied policy rather than a deeply-seated conviction." [7] Unions have gained their status in the United States only with great difficulty. They lack the respectability of other economic institutions. If they have radical aims, they have perhaps thought it wise to say little about them.

William Z. Foster wrote in 1920: "It is an indisputable fact that the trade unions always act upon the policy of taking all they can get from their exploiters. . . . Like various other aggressive social movements, [they] have more or less instinctively surrounded themselves with a sort of camouflage or protective coloring designed to disguise the movement and thus to pacify and disarm the opposition. This is the function of such expressions as 'A fair day's pay for a fair day's work.' " [8]

As a radical union leader, Foster might have looked too hard for radical aims in unionism. But others without his motivation have thought that even the AFL, conservative and business-minded as it appears, emphasizes its short-run aims, its desire for a "better tomorrow, and tomorrow,

and tomorrow's tomorrow," in order to distract attention from its much more radical long-run aims.[9]

Would wage policy be moderate if focused on yearly income rather than hourly rates? Discussion of the annual wage in recent years makes this a practical question.

The object of much attention, the annual wage has not yet been established in any significant number of industries. Whether it is to be ranked as an important objective is open to dispute. Its general purpose—employment and income security—is, of course, a major goal of unions everywhere; but this particular technique is only one of several alternatives.

The great interest in the plan shown by some unions presenting cases to the War Labor Board may have signified nothing more than their desire to circumvent the Board's limitations on straight wage-rate increases. Twenty months after the steelworkers had presented a demand for an annual wage to the Board, less than 40 per cent of the workers in the industry could answer affirmatively a poll question: "Have you heard of the annual wage?" [10] At present the annual wage is being pursued vigorously by only a very small number of unions.

But even a widespread and energetic agitation for the annual wage would not significantly diminish the confident energy with which wage-rate increases are pursued, for except where it was a wartime strategy the demand for the annual wage has revealed an interest in security rather than in income itself. Occasionally, as in the building trades, unions have experimented with lower wage rates in exchange for stability of employment; but these ventures fail to show that increased security will moderate

long-run wage aspirations. Even if high rates themselves are sought as a security device, they are also intensely desired for many other reasons. The removal of one motive for high rates does not seriously reduce their appeal.

Another aspect of the annual wage raises an interesting possibility. The Industrial Union of Marine and Shipbuilding Workers and the National Maritime Union of America, two of the most vigorous advocates of the annual wage, are on record as maintaining that the annual wage can produce significant benefits only in a planned economy. For this and other reasons the two unions are at least officially committed to the advocacy of significant departures from the competitive order.[11] The annual wage is not ordinarily considered a radical proposal. Nevertheless, should the agitation for it catch fire it might easily become a demand for legal enforcement of payroll stability. It would then become in fact if not in intention a radical, however reasonable or unreasonable, proposal for economic reform.[12]

Income goals show only the desire for monopoly gains. Quite understandably, unions would like to win more than the economy can provide under competitive rules. But mere aspiration does not set wage rates. Income goals are merely the beginning of policy.

CHAPTER IV

THE POLITICS OF UNIONISM

THE union is a body politic. Its income goals are transformed into actual wage demands through political organization. In the process, discrepancies will appear between the long-run goals of the union and its day-to-day policies, for policy reflects not only income goals but a complex of influences such as group morale, rivalry for leadership, and the struggle of factions for power.

Referring to a strike of the United Mine Workers against a wage cut in 1922, a student of union policy observed:

> Adherence to the "no reduction" policy which was practically certain to lead to a strike, would seem, therefore, to have had, at least, a strategic advantage. By such a policy the administration staked its whole fortune upon the unifying effect of a successful strike. A defeat, however, would have been little less disastrous than a continuation of the internal dissension of the spring of 1922. Furthermore, the favorable influence upon the non-union miners of a continued high wage rate in the union fields was undoubtedly well understood.[1]

In 1948 the president of the United Packinghouse Workers-CIO, wrote to his striking members:

> The packers told us very bluntly that next August when the whole contract is open they want to "review several features of the contract." This would mean cutting down holiday pay, sick pay and so on. It is our opinion that if we teach them right now, around this wage issue, that we are a

fighting union, then they will know better than to try a stunt like that next August! [2]

Man's behavior as an individual in the market place is no easy clue to his behavior when he joins with others in formal organization. And even as an individual he is more complex than the "economic man" that economists find useful for analytical purposes. Union policy does not therefore reflect the singleness of purpose of a purely profit-seeking enterprise, if such exists. Nor can it be explained as the systematic pursuit of indefinitely larger income for the membership. Whether wage demands are made primarily to win wage increases or to crystallize sentiment, unify the membership, and provide a concrete issue around which an organizing campaign may be undertaken, wage determination can only be understood in the light of the political process within the union.

What then are the major political factors in union wage policy? Do any of them impose limits on its aggressiveness?

Among others, the power and prestige of the union are dominant considerations in the formulation of wage policy, for an organization becomes a value in itself to the policy makers within it, whether they be officers or rank and file. This value may not really be distinct from the value of the ends pursued by the organization. It will quite probably represent value placed upon the accomplishment of future goals in anticipation of which the union's power must be preserved. In any case, the immediate value is the union itself rather than a goal.

Threats to power and prestige may lie in the power of the employers: the packinghouse workers are urged to "teach them right now, around this wage issue, that we

are a fighting union . . ." But, as every union leader knows, a union's greatest enemy is sometimes the apathy of its own membership.

One determinant of power is size of membership. If excessively high wage rates destroy job opportunities, will not membership shrink and the union be weakened? The argument though persuasive is nevertheless untrue. When threatened by declining membership, the union will ordinarily undertake an organizing campaign rather than curb its wage demands. The union leader does not usually believe that membership depends upon the wage rate, even indirectly. Later chapters will show that he is correct, except for very long-run effects which he can hardly regard as relevant to the interests of his current membership.

To be sure, the union leader knows that the size of his union does depend in one way on the wage rate. An aggressive demand will often win members to the union, to say nothing of guaranteeing the loyalty of old members. The prestige of a union is measured by its accomplishments, and a high wage rate is quickly seized upon as conclusive evidence of success.

Wage demands will be influenced by immediate strategic factors in union strength. An illustration of this is the common practice of "selling" certain advantages in return for wage increases—surrendering, for example, a demand for a closed shop in exchange for a five-cent hourly wage increase. Until very recently the basic issue in industrial relations has been the survival of the union itself. Selling an advantage has therefore been dangerous. But with the enormous growth in union power of the last fifteen years, income desires of members are now less compromised by the union's need for power and prestige.

Demands can now become increasingly aggressive without endangering the life of the union itself.

Because the union is a more or less democratic organization, its wage policies will be much influenced by competitive politics within the union, for democracy has been defined as competitive politics—as political organization in which there is free and open competition among potential leaders for the support of the members of the group.

Rivalry among leaders has an immediate effect on the pattern of wage determination. Although enterprise monopoly ordinarily follows a relatively stable price policy, union monopoly is characterized by recurrent wage increases. One reason is that competing candidates for union office do not win votes by calculating an optimum wage rate. Rather they demonstrate that they can win repeated and sizable wage gains.

But whether increases are an issue or not, policy will reflect leadership's estimation of what is expected of it as a condition of retaining office. In the 1922 coal strike, in which union policy resisted a reduction, Lewis was defending his leadership of the union against attack by an insurgent movement which eventually went so far as to call a rival convention and elect new officers.[3] His stubborn refusal to accept a cut was an attempt to win the support of the rank and file away from the rival leaders. Now, while it is not common for rivalry to end in duplicate conventions and panels for officers, competition for office is certain to mold wage policy except when democracy within the union degenerates.

Competition among officials for the allegiance of the rank and file touches every level of the union hierarchy.

If Walter Reuther vanquishes his rivals in the United Automobile Workers, he may go on to compete for leadership in the parent CIO by demonstrating more aggressive leadership in his own international than his rivals can in theirs. And his accomplishments will be measured by CIO members against those of John Lewis outside the CIO.

Because certain kinds of appeals are successful at election time, competitive politics put a premium on relatively short-run points of view in wage policy, especially on ambitious monopoly demands which a longer view might moderate. Union policy may intelligently pursue immediate or future benefits, large temporary or lasting gains, the interests of all its members or a mere majority of them. A number of different policies are therefore equally rational. As a result, elections cannot be fought on the relative wisdom of different policies. The union leader, however intelligent, is under pressure to advocate the most ambitious of a variety of possible wage goals.

Rivalry between unions claiming the same jurisdiction, like rivalry between candidates for office, will encourage monopolistic wage rates. Competing firms struggle for the consumer's favor with low prices, but competing unions do not ordinarily try to win the employer over with low wages. Instead, they compete by appealing to the workers who make the choice. Again, one of the most persuasive appeals possible is a wage increase.

How much wage policy will be influenced by rivalry among leaders depends upon how power is shared between officialdom and membership. This in turn depends upon the union's constitution and its customs, as well as upon the personal qualities of the leadership and the many

accidents of practical politics. National collective bargaining in one division of the pottery industry broke down when union officers could not persuade the membership to accept a wage reduction in a critical situation. The alternative chosen was what turned out to be an unsuccessful strike whose settlement reinstituted local bargaining.[4] In this case the officers had no power to reach an agreement; their influence depended upon their persuasive ability alone.

Unions differ both in their willingness to delegate power to officials to negotiate wage agreements and in the methods by which negotiated agreements are ratified. The official has greater influence, perhaps, when final authority lies in a convention where he has an opportunity to explain his action.[5] The referendum does not afford him this advantage.

Officials will ordinarily consider the consequences of wage demands more carefully than will the rank and file. They also identify themselves with the union as an entity distinct from its members at any one time. Their experience and attitudes combine to restrain their impatience. Wage policy in the hands of union leadership is often carefully calculated and skillfully pursued. In contrast, policy dictated by the rank and file is often motivated by little more than a general feeling of unrest because several years have passed without a wage increase. It is neither well planned nor strategically pushed.

The difference is not simply in degrees of patience. Wage policy will depend upon the union's appraisal of competitive conditions, its estimate of the employer's willingness to undergo a strike, its attitude toward its own financial losses in a strike, and other factors. Knowledge and training are required to appraise them. The

membership will evaluate them in one way, the better-informed leadership of the union in another.

The wrong inferences regarding wage policy are often drawn from these differences between officialdom and membership. The intelligent, farsighted leader is not necessarily more moderate than his impatient members. If the union leader well understands the consequences of the union's demands and has the power to determine policy, he may actually be all the more effective a monopolist. Many monopoly gains won in the short run by "irrational" policy cannot be maintained in the long run. Cautious long-run policies, because they can be maintained indefinitely, do more damage to competition than those which are more sensationally monopolistic but necessarily short-lived. It should not surprise anyone that intelligence and foresight are aids to the effective use of monopoly power.

Only if the pursuit of monopoly gains is not in the interest of the officer, the member, or the union as an organization will intelligence moderate the use of monopoly power. But monopoly is ordinarily quite profitable for the monopolist, and much of the argument of this book will show this to be as true of unionism as it is known to be of enterprise monopoly. The "sound" union leader will be the most successful monopolist if soundness is judged with reference to the interests of his constituents.

The distribution of power among groups within the union, like that between officers and membership, is a determinant of wage policy. This is especially true when policy is influenced by conflicts between employed and unemployed members. Fearful of an excessively stubborn strike policy during the depression, the International

Teamsters' Union asked its locals to determine strike policy through elections in which only the employed members would vote.[6] It was too easy for the unemployed to vote for a strike, the International believed, since they would suffer no wage loss as a result.

Restrictions on voting, permit systems, and other techniques typically develop to allow the fully employed members a better opportunity to use the union to their own advantage. Formal and permanent methods of franchise restriction, such as permit cards which provide a kind of nonvoting membership, are limited to a relatively small number of unions;[7] but informal and temporary methods are widely used. Sometimes, quite without any restrictions on voting or other discriminatory devices, power may rest in the hands of one group of workers, who then use it for their own purposes. In railroads, for example, the voting strength of the older men with seniority and their domination of important committees have made it possible for their policies to prevail at the expense of younger workers.[8] Or large and small locals may be at war; one group may control the majority of votes in the national organization and pursue a wage policy inimical to the other group.

The experience of the hosiery workers shows how conflicts of interest lead to drastic changes in rules to maintain a particular locus of power. At one time the interests of employed and unemployed hosiery workers in Philadelphia became so divergent that one branch of the union asked the executive committee of the national organization for a ruling which would permit a local to drop unemployed members from the union rolls.[9]

The movement to share work through shorter hours in time of depression indicates that union members have

trouble deciding whether to treat the interests of the employed and unemployed as equal or not. The railroad brotherhoods have for years favored a shorter work week as a method of spreading employment, and work sharing was common in union policy in the early years of the depressed 'thirties. But work-sharing programs frequently break down as unemployment becomes increasingly serious. Some of the teamsters' locals ultimately decided that "it was better for the local to have six satisfied members than twelve disgruntled ones." [10] By the late 'thirties many of the industrial unions placed limitations on the work-sharing principles which they had followed in the earlier years of the depression.[11]

As the economic situation of the members deteriorates it becomes increasingly apparent to union members that some members may gain much at the expense of others if work sharing is abandoned. A crisis does not necessarily develop, however. The division of work into too many small parts often leads to common agreement that work sharing is undesirable, even though some members stand to lose their jobs when it is given up.

Conflicts of interest bear on wage policy in one specific way which is easily overlooked. In the absence of a union shop, leadership is sometimes forced to appease all groups in order to hold the membership. Hence, wage policy does not reflect as consistent a direction as might prevail if, through the inauguration of the union shop, leadership could appeal to a majority of the whole rather than to the many smaller pressure groups within it.[12] No one can say, however, what are the general effects of conflicts on balance. It is significant that they clearly do not moderate union policy consistently or even in the majority of cases.

Group conflicts within the union raise the interesting question as to whether altruism is a large component of union politics and wage policy. Majorities in unions do not deliberately exploit minorities for their own self-interest through high-wage policies which restrict employment in the firm or industry. A kind of idealism is practiced in democracy in the union.

Union spokesmen insist that the movement is altruistic. It is a mass movement which necessarily takes on humanitarian ideals, they say. Looking forward to the return of large numbers of servicemen after the war, an official of one local insisted that his union would not exploit to the full its possibilities for further wage increases, because higher rates would impede the reabsorption of veterans into the industry. It is easy to write this off as window dressing or explain it as a strategic move. Yet it would indeed be surprising if the union movement did not demonstrate a large amount of the altruism which its leaders claim for it.

The very fact that unions exist—that they have overcome the traditional individualism of the American worker which made him difficult to organize—proves a change in attitude. Even though based largely on self-interest, the union movement could hardly fail to impart to the worker a greater consciousness of the dependence of his welfare on that of the larger group. Furthermore, unions constantly defend themselves and further their purposes by appealing to the public in terms of justice, equality, and democracy. Inevitably these concepts develop an impelling new force of their own in the internal practices of the union as a small-scale society.

But altruism will not adequately restrain union demands, for wage policy can be both altruistic and mo-

nopolistic. A later chapter will show that a policy which causes no member of the union to suffer unemployment because of high wage rates may still be sufficiently monopolistic to cause serious unemployment, quite unknown to the union, elsewhere in the economy. Furthermore, altruism may take the form of hostility to the competitive order, given the moral justification prevailing for "decent" rather than competitive wages. It may then make its own distinct contributions to monopoly rather than to its moderation. It will support wage rates excessive from the point of view of the requirements of the competitive system even if not from that of anticompetitive ethics. Intelligent and well-meaning people do not always mean well by the competitive system.

This conclusion runs counter to the hope that from now on unions will adjust their wage policies to the interests of the consuming public of which organized labor is a large and ever-growing part. Today a major wage gain in one large industry may set off a round of wage increases eventually resulting in a general rise in prices. Hence unions have had to estimate the effects of their policies on prices.

They have in fact consequently modified their policies. In some of the recent cases where this was true, however, variables were not wages, prices, and employment, as would be expected, but rather wages, prices, and government policy. The unions found themselves in an uncertain position as they emerged from wartime wage controls. The wage policy, for example, of the automobile workers in 1946, when the union was said to be ready to back down on its demands if they necessitated price increases for automobiles, was probably attuned more to a political

situation than to an economic one. But presumably the great and widespread consequences of wage changes will continue to give unions pause. Wage policy doubtless will continue to show some concern for the consumer.

Yet if the evidence of 1946 to 1948 is read carefully, it suggests that modification of policy will be planned as a strategy. Wage demands will show more fear of the consumer—and of the congressmen he sends to Washington—than real regard for low prices. Altruism will have little direct bearing on policy. The net result is not likely to be any systematic or adequate modification of wage demands in the interest of the consumer. This will sound like a harsh judgment on unionism only to those who cannot believe that union men are intelligent enough to learn to play the competitive economic game as others play it.

Workers are also consumers, it is true. But it does not follow that unions do not wish to gain at the expense of consumers. Union members can gain more in wages than they lose in high prices. An organization embracing all wage earners and policy coordinated for all unions represent the circumstances most conducive to generous attention to consumer interests. But even then wage earners could gain from wage increases at the expense of other groups in the society who are consumers but not wage earners.

Unions are not without concern for the consumer; certainly they do not desire to loot him. In political action they have often displayed a very genuine and far-reaching consumer-mindedness. But compelling economic motives will drive wage policy along a path at odds with consumer interests and competitive rate determination. Again, consumer-mindedness is not identical with public-

mindedness in the eyes of those who cannot accept the ethics of competition. The whole question of consumer-mindedness requires further discussion, however, in a later chapter, after union power has been analyzed.

The politics of union wage policy cannot be described in any detail here. It is enough to have observed both a number of forces in unionism generating great pressure for wage increases and the absence of any dependable internal restraints on union monopoly arising from the political process within the union. This last is significant in itself, since it means that patterns of internal organization do not hinder the pursuit of the ambitious income goals of unionism.

But the politics of unionism without its economics is relatively barren. Generalizations regarding the consequences of political factors on wage policy are to be viewed with suspicion until the other facets of unionism can be brought into view. The whole of this many-sided institution cannot be seen at once. Income aims and the politics of wage policy do little more than indicate the direction in which unionism strains to move. How does it move?

CHAPTER V

THE TACTIC OF UNION MONOPOLY

THE union is not a monopoly simply because it wishes to be. It is one thing to want high wage rates, another to get them. Because union power is rooted in a tactic which avoids many of the difficulties that ordinarily beset a monopolist, the union can in fact turn its hopes into accomplishment.

Monopoly has long been associated with business enterprise. As a result, economists have been slow to recognize that union monopoly operates on a pattern of its own. One of them writes that "labor monopolies . . . is just another term for 'strong' unions." He continues:

> The closed union plus the closed shop, the two combined, assuming that they use the power at their command, by excluding otherwise eligible workers from work in a particular occupation force them into less productive fields . . .
>
> When I speak of monopolistic "trade unionism," therefore, I include any code of practices . . . provided it leads to the same concrete results, restriction of access to an occupation and deliberate reduction of the amount of output per worker per day.[1]

A recent textbook in economics reads:

> . . . a union is not likely to maintain . . . an increase in wages unless it can somehow *limit the number of new entrants* to its occupation . . . A union, like any other monopolist, can raise its price only by restricting supply.*

* The argument expanded is a follows:

"Suppose that a trade union succeeds in inducing employers to pay

The first quotation wrongly implies that union monopoly depends upon control of entrance to a trade and output restriction. To this confusion the textbook adds an explicit identification of union monopoly with restriction of supply. The truth is that a union establishes monopoly power by means more simple and direct than control of the labor supply; and neither restricting the numbers in an occupation nor limitation of output per worker is a necessary or important tactic. Union power is greater than these practices could make it.

While enterprise monopoly is not all of one pattern, it usually operates through control over supply. A limited amount of a product or service offered on the market will bring a high price. The reduction is achieved in turn by power over supply sufficient to restrain a possible competitor from coming on the market with more of the commodity. The restriction of entry into the business

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a wage rate substantially higher than that ruling in comparable occupations. Can it be maintained? Boys leaving school will be drawn to that occupation rather than to others. Some workers in jobs requiring similar capacities and skills will try to transfer into that occupation, especially if this does not involve changing their residence. But a large influx of new workers would tend to rob existing members of the union of their gains. The newcomers might refuse to join the union—possibly forming one of their own—and might obtain employment by accepting wages below those demanded by the union, thus throwing union members out of employment, and compelling them to agree to a lower rate . . .

"The conclusion is that, granted other conditions are favorable, a union is not likely to maintain such an increase in wages unless it can somehow *limit the number of new entrants* to its occupation. And it is not easy to do this without obtaining the sanction of the law—for example, by inducing the state to declare that a minimum period of apprenticeship must be served by new entrants and to limit the number of apprentices per journeyman. Limitation of membership may also be accomplished by charging of high initiation fees. A union, like any other monopolist, can raise its price only by restricting supply." Frederic Benham and Francis M. Boddy, *Principles of Economics* (Pitman, 1947), p. 250.

may sometimes be enforced by a tariff, a patent, or some other legal privilege.

Union monopoly, on the other hand, does not require and cannot ordinarily establish such control over the supply of labor through a comparable restriction of entry into the occupation. A group of workers cannot destroy competing workers as a firm can destroy competing firms. It cannot ordinarily enlist government support to make the work of the competitors illegal nor can it restrain every potential worker from entering its labor market.

But it can coerce the employer into submitting to the union. Union monopoly regulates the wage rate, therefore, not by sustained control of supply but by control of the buyer, who is the employer. The technique used to establish this control is, of course, the strike, but its importance is wholly misunderstood unless it is seen as a method of controlling the buyer.

If this distinction between enterprise and union monopoly is explored, its significance becomes apparent. Where power rests on control of supply, the firm can obtain a monopoly price merely by decreasing the quantity offered on the market. Competition among consumers for the restricted supply will drive the price upward, although to some extent they will turn to substitutes or simply buy less. Alternatively, it is possible for the firm to establish an administered price, merely by announcing the price at which it is willing to sell. Of course, a large buyer can often induce the seller to higgle over price. If so, the price is finally settled by mutual agreement, one party or the other at some point being ready to turn to a substitute commodity or go out of the market rather than make further concessions. The seller can always fall back on simple output restriction or administered price if higgling is unsatisfactory.

The overwhelmingly important element restricting monopoly price is competition—the possibility of buyers' turning to substitutes or spending their money on any one of the thousands of commodities that vie for the consumer's dollar. This explains the necessity of establishing enterprise monopoly on control of alternative sources of supply.

In contrast to enterprise monopoly the union ordinarily cannot discipline the work force well enough to measure out a restricted supply of labor onto the market. It will therefore be unable to stimulate competition among buyers of labor which will drive the wage rate up to the desired level. Nor can a union ordinarily administer price—setting a wage rate at which it is willing to dispose of the labor of its members. It is almost always forced to bargain or higgle with the buyer, the employer. But it cannot higgle in the manner of an enterprise monopoly because it lacks control of supply. Rather than permit the employer to act freely in accepting or rejecting its proposed wage rate, the union forces him to accept its terms. In a sense the union compels the employer to ignore available alternatives. A strike, for example, restrains the employer from hiring low-wage workers who would otherwise be available to him. The union's higgling is part of a coercive tactic.

A tire manufacturer who bargains over the price of tires with a mail-order house may sell his tires elsewhere if he cannot win the buyer over to his terms. His power over the buyer, if he has any, depends upon the limited number of alternative sources of supply to which the mail-order house can turn. A union bargaining over wages with the mail-order house cannot dispose of its labor elsewhere if it fails to win its terms. Its power over the buyer does not depend upon the limited number of

laborers available to the mail-order house; for if the union proposals are rejected the mail-order house hires the union labor at less than the union rate. The union's power over the mail-order house therefore depends upon its ability to coerce it into accepting the union's terms.

What would happen if a union attempted an "administered price" policy, simply announcing the rate at which labor would be available? It would be in quite a different position from the enterprise, which can forbid any of its salesmen to sell its product at less than the prescribed rate. Individual union members would appear for work, only to be told that the employer would hire at less than the union rate—at the employer's own administered wage rate. Just as the employer decides the price at which he will sell, he has the immediate and legal authority over what wage rate he pays to his employees. For each individual worker, therefore, the choice is between the employer's wage rate or none at all. He will be strongly tempted to work on the employer's terms.

At such a juncture the union must either restrain individual workers from offering their services to the employer or restrain the employer from offering less than the union rate. Ordinarily it cannot do the former because policing thousands of workers is an impossible task. Both union and nonunion workers need to be restrained. Consequently the union will apply its pressures to the employer. If he can be prevented from offering less than the union rate, the problem of enforcement is solved; and the weaknesses of individual workers will not be given a chance to break the union rate.

What would happen if the union chose the alternative method by which enterprise monopoly raises price—putting a restricted supply of labor on the market, allowing

competition among buyers of labor to bid up the wage rate? The same problem of enforcement arises, and the same tactic is required. Nonunion workers will supply the employer's needs wholly or in part; and even union members will offer their services to the employer rather than remain unemployed. The union would be again driven to control the employer.

Only under one set of circumstances would a scheme for restricting supply appear promising. If supply is restricted by limiting membership so that no member is without work, the only threat is from nonunion workers. If these cannot acquire the necessary skill, their threat too is gone. The union could presumably then regulate supply and expect the employers to bid up the wage rate.

The difficulty with such a scheme is that the union cannot itself prevent nonunion workers from acquiring the necessary skill. It can do so only if it can restrain employers from offering experience on the job to nonunion workers. But again union power hinges on control of the buyer of labor, not of supply. For other reasons as well, the union will ordinarily be unable to carry off a scheme such as this. For one thing, it would succeed only in the skilled trades. In addition, it turns on the union's ability to restrict its membership, an ability which, for reasons to be mentioned shortly, is much overrated. But the flaw in such a plan which alone would be its undoing is that it depends on prior control of the employer and is really not a method of controlling supply at all.

Common as the strike is, its significance for union monopoly is often missed. It is not simply a refusal to work. It is a punitive measure to force the employer to submit to the union. Its aim is to make it more profitable for him to

grant the union's demands than continue the work stoppage. Specifically, it compels him to disregard the possibilities of obtaining labor at less than the union rate even if some workers individually wish to offer their services to him for less.

In conducting a strike the union does attempt a kind of control over the labor supply, it is true. A strike is won only if the labor supply can be pulled away from the employer until he concedes what the union is asking for. But this type of control of supply is a strategic maneuver at a critical time to interrupt the operations of the firm. Its objective is control of the employer's behavior, and only a critical part of the labor supply without which the plant cannot operate need be disciplined. The union does not intend to stimulate competitive bidding for labor; nor does it expect that its wage demand will be respected as an administered price by all workers in the labor market who might possibly become employees of the struck plant. Control of labor supply by the strike is not like either the control of entry to an occupation or the restriction of output per worker, on which union monopoly has been alleged to rest.

The oversimplicity of elementary economic theory has been a stumbling block to a correct understanding of the tactic of union monopoly. Elementary theory declares that if a seller's price is above the competitive level, competing sellers will be attracted to his market, will undercut the high price, win the buyer away from the high-priced seller, and establish the competitive rate in the market. This is a real and obvious possibility for competing enterprises but not for competing workers.

An individual unemployed worker willing to offer his

services at less than the prevailing rate has almost no opportunity to bid himself into the labor market with his low offer even in a nonunion market. In an unorganized market in which the prevailing daily wage rate of an employer is, say, $10, individual unemployed workers willing to work for $5 a day will not gradually displace the $10 workers. Most employers do not want to demoralize their employees by discriminatory wage rates. The unemployed and willing $5 workers will ordinarily affect the prevailing wage rate only through an employer's decision to cut the wage rate for the group of workers as a whole.

Again it follows, therefore, that the union can control the price of labor if it can control the decisions of the employer, regardless of sustained control over the labor supply.

Elementary economic theory may also compare unionism as a form of monopoly with the cartel or trade association. Both are aggregates of individual sellers, and both face a problem of enforcing the organization's rate or price. But here the similarity ends. The cartel or association seeks to enforce its price by control of sources of supply of the monopolized commodity—the sources being the members of the organization. It may deprive the price cutter of his necessary raw materials, break off his banking connection, damage his reputation, and the like. The union, on the contrary, disciplines the buyer. The union cannot effectively forbid its member sellers to sell low, but it can forbid the buyer to buy low.

In the contrast between the cartel and the union the strength of the union tactic shows itself. An occasional willing price cutter is a serious immediate threat to the cartel's monopoly price. The cartel must always be on

guard against its own membership, for first one and then another firm will experiment with price reduction. Except in special cases, the union is happily free from a similar threat to its rate. A thousand willing wage cutters will not break its hold on the market. They cannot sell their labor at less than the established rates unless the employer changes his whole wage structure. This he cannot do as long as he is pledged in contract to abide by the union rate. The union need watch only him.

What is the significance of the rules of apprenticeship, entrance restriction, permit cards, and the like? Long considered to be tactics for controlling the supply of labor, they are actually either of little importance or useful primarily as supplementary devices for the coercion of the employer.

Consider first apprenticeship regulations as one possible method of controlling the labor supply. If the only way to acquire a skill were through union apprenticeship, it might seem that unions could limit union membership and then push rates upward by restriction of the labor supply. The actual possibilities are insignificant. It has already been observed that apprenticeship regulations are possible only where skills are required, and are thus limited to craft unions. And few unions dare make apprenticeship an actual prerequisite to membership. Men will acquire skills in nonunion firms without apprenticeship; the union has less to fear from them if they become members than if they constitute an uncontrolled threat from without.

The few national unions requiring apprenticeship for membership and employment maintain their strength primarily through the strike. This is their only means of winning the employer's assent which is indispensable if

the nonunion skilled worker is to be barred from employment. Apprenticeship is merely a supplementary regulation which can be established only where control is already achieved through some other method.[2]

As an alternative to apprenticeship, craft unions will occasionally oppose publicly supported vocational training for fear of glutting the market for their skills. This is not an important tactic. The impossibility of stamping out private nonunion and antiunion schools and of eliminating training on the job in nonunion shops has apparently brought unions to the conclusion that restriction is not a desirable policy. Publicly supported and controlled training may be more favorable to the union, they think, than privately controlled training.

Another possible control is licensing. Plumbers, stationary engineers, electricians, firemen, barbers, and motion-picture operators are licensed by law in a large number of states and cities.[3] These laws probably tend to raise wages, it is true, but not directly through restrictions on the supply of labor. Rather they operate indirectly to make it easier for unions to win strikes, for they increase the difficulty of obtaining temporary workers as strikebreakers.

The closed shop is allegedly the most powerful of all regulatory devices. Although some unions may appear to have attained control over the labor supply with closed-shop contracts and membership restriction, power here again actually rests on control of the employer. Like the other devices, the closed shop plus membership restriction is supplementary to control through the strike power, to which it superficially appears to be an alternative.

The proof of this is in union membership policies. National unions are learning to avoid restrictions on mem-

bership; they discourage the restrictive policies of local unions. Closed-shop agreements providing that employers must hire only union members are uncommon. The employer is ordinarily free to hire nonmembers on a union-shop basis if no further union labor is available. And contracts which require the employer to hire only union members frequently contain provisions compelling the union to keep its membership list open and its dues and initiation fees reasonable.[4]

The logic of these provisions is clear. The nonunion worker is not eliminated from the market simply because he is not a member of the union. He is in the market, and nothing can prevent the employer from hiring him except the power of the union to control the employer. Because the strike is the real basis of whatever power the union has over the employer's hiring, the union cannot tolerate hostile workers outside the organization who are willing to act as strikebreakers. The union is therefore led to encourage rather than restrict membership.

This suggests that there is one obvious way to control supply in the traditional sense: organize all the workers. In some industries organization is so strong that workers need not fear nonunion workers. But even this does not give the union useful control over the labor supply because a high degree of organization is possible only if no attempts are made to restrict the labor supply. Hence, wage demands must still be pursued through tactics aimed at the buyer.

The tactic of unionism—control of the buyer—provides a strong foundation for union power. But how strong is strong? The strength of the tactic shows up best measured against the competitive forces it seeks to overcome.

CHAPTER VI

UNEMPLOYMENT: COMPETITIVE OBSTACLE TO MONOPOLY

IN WAGE aims, union monopoly has a goal; in union politics, a course of action; in control of the employer, power to act. How successfully the union can exercise its power depends on the strength or weakness of barriers to its monopoly. The test of the union's control of wage rates is its ability to break through competitive obstacles to monopoly power.

Many forces operate in a competitive price system to frustrate the union's plans. A hostile employer may bar the path to a wage increase by his stubborn refusal to yield in bargaining. Or he may threaten the jobs of union members with labor-saving innovations through which he seeks escape from high labor costs. A falling product price or a gloomy employment outlook may impose limits both on what the union dares ask and what the employer dares concede. These and other restraints fall largely under two headings. Aside from influences working through certain special channels which will be examined later, limits are placed on union monopoly either through loss of employment opportunities as wage rates rise or through employer resistance.*

* Restraint through employer resistance and through unemployment are, of course, interdependent. Paradoxically, resistance from the employer may be less evident in industries in which unemployment is a relatively more powerful restraint, because of the particular position the employer finds himself in with regard to movements of price and payrolls. See John T. Dunlop, *Wage Determination under Trade Unions*, pp. 144 ff., for evidence and argument that wage rates tend

Monopoly wage rates do not always reduce employment opportunities in a firm or industry; a wide variety of consequences are possible.[1] Yet the possible restriction of employment as a result of high wages is, in the eyes of some observers of the labor movement, the only hope for the effective containment of union power. The threat of unemployment as a result of monopoly wage demands is widely believed to impose a check upon the demands themselves. If it fails to do so, an actual decline in employment, union membership, and power is thought to be a strong corrective for the mistaken policy. Either way unemployment is believed to be effective.

High wage rates mean high costs, the argument runs. And high wage costs cause high prices. For a single firm, high prices result in loss of business to competitors. For a whole industry, they shift consumer purchases to other industries. And for firms and industries alike, high labor costs lead to substitution of cheaper labor, nonunion labor, or labor-displacing machinery for costly union labor. If the argument is correct, the union never escapes the penalty which competition imposes on monopoly wage rates.

What are the actual possibilities of restraint on union monopoly through unemployment? Aside from employer resistance, which will be examined in a later chapter, will the union's monopoly power be curbed by its members' concern for their jobs?

To understand how unemployment might restrain monopoly wages, it is helpful to imagine a union which would respond to the threat of unemployment but to no other

to rise first and fall last in industries in which cyclical unemployment is greatest.

restraint. The policies of such a union will correctly reflect the strength of unemployment alone as a limitation on wages. If they are to show the maximum effectiveness of unemployment, it must be assumed that this union possesses accurate knowledge of how much unemployment follows from its policies, for only then will the full pressure of the consequences of its policies be brought to bear to restrain policy. Presumably, unemployment would be a relatively weaker restraint for a union which plunged ahead with its wage demands without thought of consequent unemployment.

What is the highest rate this hypothetical union will seek? The answer might seem to be that it will choose the wage rate which will bring in the largest total wage income to union members. Technically speaking, the desired rate is said to be at the point of unit elasticity of demand for the kind of labor whose rate is being negotiated. This is not necessarily the highest possible rate, since receipts are the arithmetical product of wage rate and number of jobs available.

But this obvious choice is not necessarily what happens. Maximizing aggregate wage income might be the wisest policy if the union as an organization could claim the wage income of all members and then distribute it among them. But wages are received by individual workers, not by the union. Wage receipts are not equally divided; some workers receive high wages and others become unemployed. If a wage gain does not improve the position of all members, the union must decide to what extent wage increases for some members justify hardships consequently imposed on others. The question of the most profitable wage rate then has no one "correct" answer.

In a sense the union is not itself a monopoly but an

organizational device similar to a cartel permitting individual members to be monopolists. Yet the possibility of dividing output and profits in a cartel means that all its members may share its monopoly gains. Consequently the cartel's policy is wisely directed to the largest possible aggregate monopoly profit. Sales of labor cannot ordinarily be divided up in a union. The restriction of output falls on one group in the form of unemployment, and the monopoly gains accrue only to the employed.

Only if the employer could not afford to hire any workers at an increased wage rate would policy be limited to one choice. Rather than destroy the employer's business and their own jobs, members would resign themselves to the wage rate already prevailing. Their union would in fact be powerless to raise wages; its monopoly power would completely disappear. But, as will be seen, this situation bears only a limited resemblance to reality. In more usual circumstances increases are possible, and policy will depend upon who controls the union. The union may pursue greater incomes for all its members, for a majority of them, or for a power-holding minority.

When, therefore, the demand for labor is such as to restrict—but not wholly eliminate—job opportunities, several possibilities in union policy are apparent. One of the two chief alternatives is majority rule. Each individual in the hypothetical union pursues with his vote that wage policy which will make his own income as large as possible. He counts on some predictability in the order of dismissal if employment shrinks. The wage rate sought under this assumption will be very high—the highest consistent with the employment of no more than a bare majority of the membership. Despite the fact that union policy is hardly so simple, this hypothetical possibility does correctly and

immediately suggest the weakness of the threat of unemployment as a restraint on policy.

If unemployed members of the union drop their membership in the local union and drift away, no competitive check through job losses will operate as the wage rate rises indefinitely, for the newly constituted majority among the survivors of the last wage gain will increase wage rates further. The process can be repeated, not ad infinitum to be sure, but until the union or firm is brought to collapse. Other restraints may limit wage increases of this sort, but unemployment cannot be counted on to do it.

The other alternative is some arrangement within the union—a unanimous vote, for example—which guarantees that increases will be sought only if consistent with full-time employment for all members employed before the increase. The two alternatives provide two extremes of policy: one in a sense exploiting a large minority, the other avoiding discharge of even one employed member of the union.

This second hypothesis seems at first glance to preclude any wage increases. It would actually do so only under very special assumptions, for if the firm or industry is expanding as the result of increased demand, wage increases may not result in a net reduction in employment opportunities. Wage increases merely offset the expansion of employment that would otherwise occur. Technically speaking, the movement to the left on the demand curve for labor is offset by a shift in the demand curve as a whole to the right. Moreover, many cost-reducing innovations result in lower cost and consequent higher output and employment. Through wage increases the union again merely offsets expansion of employment that would

otherwise occur, but does not eliminate the job of any member. It is also possible under this hypothesis to raise wages in such a manner as to reduce employment at the same rate at which members are separated from their jobs and from the union through voluntary transfer or retirement.

Because it is sometimes possible to take a wage rate increase in the form of reduction in hours instead of in a money gain, union policy may still further avoid a conflict between high rates and reduced job opportunities. If at any new wage rate the available work is equally shared through reduction in hours by all members of the union who were employed at the old rate, both income and leisure for each worker may increase with each rise in the wage rate. The reduction in hours may be proportionately less than the rise in the wage rate. On the other hand, higher wage rates may reduce money income if the reduction in hours is proportionately greater than the rise in the wage rate. But even so, more leisure may offset the income loss to the worker; and he may therefore wish to raise wage rates despite reduction of income.

Unemployment is even less effective than these hypotheses have suggested, since for simplicity's sake they have contained an implicit assumption which is often contrary to fact. It has been assumed that a functional relation holds between the wage rate and the volume of employment in the firm—that, other things being equal, gradual increases in wage rates above some competitive level will raise labor costs gradually and decrease employment in the firm. But actually the typical firm does not reduce its payroll as soon as wage rates are increased. High rates may not mean high labor costs if worker productivity increases. And high labor costs do not neces-

sarily mean high prices, since they may offset technological improvements which would otherwise have reduced prices. Nor do they necessarily lead the employer to find substitutes. Often the primary effect of a wage increase is to tighten up managerial efficiency, and in many circumstances the increase may occasion no change of any kind in the firm's plans either because costs are not increased or because earnings are allowed to fall.

From the foregoing hypotheses certain critical factors in wage determination begin to emerge. If, as has been explained, a local union cannot in some circumstances raise wages appreciably without all its members losing their jobs, it is because competition imposes limits on the firm's adaptability. This suggests that significant monopoly power cannot be successfully exercised over a long period of time by a plant-wide or firm-wide bargaining unit in a highly competitive situation in both the product market and the markets for other factors of production. Rigorous competition will eventually put the firm out of business as monopoly wage rates eat up its profits, for a firm hard pressed by competition cannot raise its prices or reduce its payments to other factors of production.

But the lack of rigorous competition in either product or input markets makes it possible to hire some labor at wage rates above the competitive level, for if not subject to rigorous competitive pressure, the firm enjoys leeway in prices. It can offset high labor costs by reducing its payments to other inputs or by raising prices. Rigorous competition for inputs or for customers would make both impossible.

Technically and somewhat more precisely, the lack of rigorous competition in either product or input markets will create a sloping demand schedule for labor in local

bargaining; or it will destroy the functional relationship between wage rates and employment.

In local bargaining, therefore, if competition is weak, unions can raise wage rates as freely as could the hypothetical union. A vigorous wage policy will not be adequately restrained.

The possibilities of controlling the wage rate are especially great in the short run, since competitive influences which destroy markets and job opportunities can do so only slowly. That is to say, the demand curve for labor becomes increasingly elastic only with the passage of time. In the short run, competition is quite imperfect. In particular, some factors of production will continue to be available to the firm even at reduced payments to them. If the firm reduces its rental payments, for example, it will not immediately lose the use of the premises, for an alternative firm wishing to rent the building and space might not appear at once. Very high wage rates may therefore in effect appropriate shares of revenues ordinarily paid to other factors. Since the short run—a period too short for a high degree of mobility of all factors of production—may still extend over a period of a few years, union wage policy designed to maximize short-run advantages may constitute significant and disruptive monopoly, even if eventually broken.

A union is not at all irrational to exploit short-run advantages to the full. An older worker may consider long-run consequences irrelevant to policy, and a young worker's uncertainty over the future and over his interest in a particular firm may render the long run unimportant to him as well.

As the hypotheses indicated, the degree of monopoly depends not only on the characteristics of the demand for

labor but also on the attitudes of the union, its officers and members, toward unemployment of members. But because monopoly wage rates are possible without loss of employment opportunities to members, varying attitudes toward unemployment do not make the difference between competitive and monopolistic wage rates. Rather they influence the aggressiveness of wage policy, which is monopolistic in any case.

Thus, in summary, unemployment will be an inadequate restraint on union monopoly at the local level in the short run, as well as in imperfectly competitive conditions in both the long and short run. Only in the long run in relatively vigorous competition will unemployment actually materialize to the degree necessary to limit union monopoly.

Actual union policies and their results bear out these theoretical expectations. Wage policy is consciously adapted to the threat of unemployment somewhat more than might commonly be supposed. Where it is not, the explanation is often, as would be expected, that the union deliberately seeks immediate gains despite its knowledge of adverse long-run consequences. Or the union may proceed in ignorance, in which case the consequences are, again, what would be expected from the foregoing analysis.

Any impression that union members generally believe employers to be capable of paying indefinitely higher wages out of profit or price increases without any impact on the competitive position of the firm is mistaken. From field work one researcher concluded that union members "were much more inclined to excuse the employer as caught in a situation over which he had no control than

were non-union men. . . . Out of organizing and bargaining experience has come the understanding that not their own employer, but the 'chiseler' who would produce at a price made possible by low working and wage standards is their chief enemy." [2]

Economic sophistication is only recently to be found in union policy, it is sometimes said. No doubt the knowledge of economics has gained, perhaps rapidly, in recent years. The union leaders of earlier generations were not without it, however. In 1850 the printers in New York City resolved: "That experience has abundantly proved that the surrender of our business to the unregulated, unlimited operation of the vaunted 'law of supply and demand'—that is, to the law that 'might makes right'—is in effect to empower the least honorable and most avaricious employers to establish prices for our labor to which the generous and upright are constrained at least to conform." [3] Competitive limits on their wage aspirations were all too evident to them.

Still, it is easy to exaggerate both the union leader's knowledge of economics and his interest in using it. Many unions pursue wage increases beyond the employer's continuing ability to pay, even when that ability is obviously limited by a competitive product price over which he has little control. But a union forcing wage rates to levels which produce great amounts of unemployment may do so either to exploit its short-run advantage, as has been explained, or from ignorance, and it is not always possible to guess which. Perhaps the policies of the United Mine Workers in the 1920's, which would have destroyed the union had it not been revived by the labor legislation of the 'thirties, involved both short-run rationality and long-run irrationality. As a result of high rates production

moved from union to nonunion fields, union employers broke their wage contracts to save themselves, internal dissension flared in the union, and membership declined from 400,000 in 1925 to 150,000 in 1932. As early as 1928 the union had lost control over wage rates.[4]

Because the employer usually exercises some control over prices paid for factors of production and received for products, competitive checks on union policy are intricate. A complicated pattern of relationships between wage rates, costs, prices, and employment will often confuse the union's estimate of what monopoly gains can be had. As a result, union policy will often betray a serious miscalculation of the effect of wage rates on employment.

The many case studies of union policy which labor economists have undertaken over the years bear proof of confusion. The shoe workers of Haverhill, Massachusetts, were at one time confronted with evidence that nonunion competition at lower wage rates was driving the shoe industry out of their city. Rather than accept wage cuts, they insisted that factors other than wages were responsible for the low level of employment in Haverhill and sought further wage increases in order to maintain their earnings! [5] While New York declined as a printing center because nonunion printers operated at lower rates outside the city, the officials of the New York Typographical Union minimized the extent of the loss of printing and denied that union wage rates were responsible.[6] In Chicago in similar circumstances the union was no more perceptive.[7] In both cases union policy was not moderated for many years, although wage adjustments could have protected these two declining printing centers. The Philadelphia Tapestry Carpet Workers' Union lost control of wages in Philadelphia between 1926

and 1929 because it closed at least one eye to competition outside of Philadelphia.[8] The rank and file of the hosiery workers' union for years underestimated the strength of competition, although they worried over the problem continually.[9] Their policies, by increasing costs in union mills, in effect subsidized nonunion mills which eventually grew in number to dominate the industry.

In these and other cases it is always a possibility that the union understands the complex relations through which competition operates but allows other considerations to override its concern for its members' jobs. Whatever the explanation, unemployment does not successfully restrain the union, except in some cases in the long run.

The apparently systematic and deliberate exploitation of short-run advantage untroubled by thought of the morrow—or at least of tomorrow's morrow—is illustrated by the Brockton local of the shoe workers, long at odds with the policy of their international. The local wished to pursue wage increases as opportunities appeared; the international believed that the long-run interest of its many members first required the organization of nonunion areas and raising rates elsewhere up to the Brockton level.[10] The local's policy was well considered as a short-run program. It could and did establish high rates, and the disadvantage to the Brockton employers over a period of years was not sufficiently great to deprive the local of its gains.

An even better example is from the French worsted spinning industry of Woonsocket. The industry has been in competition with spinning in other unorganized cities, but wages in Woonsocket have been higher. The difference has been taken out of profits except when the price for the product in times of depression has gone down to

a very low figure. Only then do the Woonsocket firms lose their orders to competitors; only then does the differential have any effect whatever upon the level of production and employment. The industry's capital is being depleted by the union's policy which means that eventually the union will fail in its purposes. But the short-run strategy has been so successful that the union finds it easy to ignore the distant day of reckoning.[11]

A union may even deliberately and rationally choose to destroy itself through high rates, particularly if the decline in employment opportunities is less rapid than the decline in union membership through death or other separation from the industry. With respect to the old locals of New England teamsters, "it is fairly safe to assume that they chose, as have other unions under similar circumstances, to commit suicide by keeping rates up for those who possessed the old skill and excluding all new applicants for membership." [12]

If a union can exploit the immediate situation for its short-run advantages, it is because there are limits to the ease with which firms can discontinue operations or move to nonunion centers. Union power will therefore vary enormously from one firm or industry to another. In the shoe industry, because of the custom of renting machinery, relatively little capital is fixed cost; migration of business to avoid excessively high wages is always a possibility. The clothing industry has been almost foot-loose because of the mobility of its light machinery. On the other hand, only a few plants or firms in highly capitalized industries are in a position to move at any one time. This is enough to influence wage policy in some cases, as indicated by the wage cuts which industry migration imposed on the policy of the rubber workers.[13] But in

general the limits of union wage policy are much broadened where investment is heavy.

Where wage increases result in unemployment, union policy, as the examples have shown, often causes serious dislocations of industry, movements of firms from one area to another, and shifts in business from some firms to others. Competition may exercise an eventual check through weakening the competitive position of high-wage firms or even destroying them, or through disorganization of the collective bargaining process itself. But it is a check not without misallocation and waste of resources, and it works slowly. Unions proceed with their wage demands because unemployment does not represent a serious enough burden on the union to warrant a change in policy. But for the economy the unemployment resulting from high wages may be a large problem.

What now of the possibility that unemployment for union members may not occur, even in the long run? As already explained, with a rising national money income, wage rates may be increased at a rate which maintains the employment of those already engaged by the firm even if it curtails expansion. Or increases in demand for one industry alone may also enable the union to pursue monopoly policy without restriction of employment for members. Actual union policy is as expected. Take the New England teamsters for example: "Since the industry has been expanding almost continuously during the entire period of organization, although individual employers have gone out of business, the union has not been faced with any shrinkage of employment, except during 1938. Consequently it has not had to think of its policy in terms of selling labor in a market where the demand for that labor was highly elastic or contracting." Moreover,

"it could afford to force inefficient operators out of business, because there were always many persons ready to take over abandoned companies and continue to offer the same volume of employment." [14]

Technological improvements which reduce costs of production afford the same opportunities to monopoly as expansion of demand. Again actual union policy follows what would be expected from the analysis above of a hypothetical union. Unions commonly win increases out of cost-reducing innovations. This is particularly true where displacement of workers is low, as in large firms in which workers removed from one operation can be placed in another. Technological change—in truck size and speed and in loading equipment, for example—has been a major source of the wage gains of the teamsters in recent years.

In these cases, competition is not wholly eliminated as a restriction operating through loss of employment. Wage increases won from an individual firm may damage its competitive position even if the industry as a whole is expanding. But the expansion of the industry, because it creates larger profits than usual, permits greater monopoly wage gains firm by firm than could otherwise be borne by the firms. And a technological innovation coming into an industry permits monopoly wage gains to follow the spread of the innovation.

It might once have been thought that the deflationary stage of the business cycle, or any general decline in business activity, could be predicted to provide an occasional check on union monopoly by wiping out its gains in a general fall of prices. But as it has turned out, the "no reduction" policy of organized labor has opened up possibilities for large wage gains won during periods of expan-

sion to be maintained successfully in depression. Unions resist reductions stubbornly.

During the depression of the 1930's the International Teamsters' Union advised each of its locals to accept transfer cards and offer equal job opportunities to teamsters from other locals. It hoped that by these tactics the locals could be dissuaded from reckless wage increases. But at the same time it advised these same locals to sign contracts running for one to three years with automatic renewability—an indication of its intention to hold firm against wage cuts.[15] It has been said that the greatest achievement of the steelworkers in the recession period of 1937–38 was their preservation of existing wage rates.[16] The United Mine Workers fought off wage reductions not only in the depression of the 1930's but for a time in the 1920's when reductions would have retarded the shift of coal mining to nonunion mines.[17] Although unions are often forced to take cuts, they undoubtedly resist them more tenaciously than they seek to raise wages.

But even if unions are more inclined to disregard competition when the issue is wage reduction than when it is increase, they do not always lose sight of the consequences. The automobile workers, for one example, though highly successful in the recession of 1937–38 in enforcing a general policy of no reduction, conceded reduced rates in certain cases where they feared movement of plants to low-wage communities.[18]

Union members know that price decreases create pressure from the employer for wage decreases. As has been explained, it is not always clear to them that output may fall as a result of wage increases. This would seem to imply that wage policy would be moderated by competition in downward movements of business activity, when wage

cuts were under discussion, more than in periods when increases were being asked. The truth is, however, just the opposite.

This apparent discrepancy has several explanations. Wage policy sometimes reflects the belief that wage decreases in business depression will merely reinforce the financial condition of the firm without maintaining or increasing employment opportunities. On the other hand, it sometimes reflects the fear that the firm will be forced to pass the savings on to the consumer and cannot use them to strengthen its threatened financial position. The union is correct in believing that under some circumstances continued employment for union members does rest on expansion of sales, while in other circumstances it rests immediately on reducing costs to save the firm from bankruptcy. In either case, lacking control over the firm's use of its savings from wage reductions, the union doubts that the funds will be used as intended and is consequently not disposed to grant a wage decrease.

Unions have also learned that wage cuts may lead management to expect further wage cuts. Or wage cuts in union enterprises may result in parallel wage cuts in nonunion enterprises, which leave the union firms no better off than before. Finally, in periods of general depression, the purchasing-power argument plays an important role in encouraging resistance. Much will be made of adverse effects of widespread wage reductions on total spending in the economy; and moderation or abandonment of the "no reduction" policy will be quite unlikely.

In short, competition acting through the threat of unemployment as wage rates rise is an insufficient restraint on local union policy. It is wholly inadequate in the short

run. And in the long run, it is of only limited effectiveness where competition is not rigorous. Whether or not it would be effective in the long run in rigorously competitive markets is debatable. Perhaps it would be if it were allowed to operate.

But unions have developed powerful techniques to control the operation of competition. The threat of unemployment is never entirely banished by these techniques; but the competition of low-wage firms or of nonunion workers or of labor-displacing machinery does not, in the face of them, cause a problem of unemployment serious enough to prevent union monopoly. With these controls unionism breaks through its restraints. What are these techniques of union control of competition and how are they used?

CHAPTER VII

CONTROLLING COMPETITION

THE last fifteen years have seen two developments in unionism which have transformed it from a pygmy into a giant with respect to control over wage rates.

The first is the growth in size and coverage of the union movement. From just under three million members in 1933, it has now grown to between thirteen and fifteen million. Equally important is its extension from relatively few into many industries. Union organization, once found largely in building construction, coal mining, printing, railroads, and garment trades, is now a great power everywhere in the economy except in agriculture, retailing and wholesaling, and, of course, the professions. Even in these areas it has limited strength.

About one-third of all nonagricultural employees are union members; and 80 to 100 per cent of the employees are under union contract in each of such important or strategically placed industries as aluminum and steel, coal and metal mining, automobiles and parts, agricultural equipment, rubber products, shipbuilding, building construction, longshoring, railroads, and trucking.[1] Unionism is well intrenched: 77 per cent of employees under union contracts are in closed or union shops or are covered by maintenance of membership or preferential hiring agreements.[2]

The second major development which has increased the wage-fixing powers of unions to a phenomenal degree rests on the first. It is the formulation of policy and exercise

of power on an industry-wide or national basis. This is unionism's most powerful technique for breaking down competitive restrictions on its ambitions, because it minimizes the downward pressure on wage rates which results from competition among firms. The wage rates of all competing firms move together, and no firm is at a competitive disadvantage.

Industry and national wage policies have been made effective in a number of ways. Where interfirm competition is primarily local, competing enterprises in one small area constitute the industry, as, for example, in building, laundering, or milk distribution. In these circumstances, union locals may be brought together in a joint council to bargain with an employers' association representing the competing firms. Organization may, however, be still broader; a teamsters' joint council, for example, representing truck drivers in a number of industries, may bargain with a group representing all their employers.

For other than local trades, collective bargaining must go beyond local organization if it is to cover the industry or even a large segment of it. Formally established regional bargaining is, however, not yet widespread, although it is important in longshoring, lumber and maritime industries, and metal mining.[3] And formal industry-wide bargaining is even more rare, although it is established in such a critical area as coal mining and in a few less important industries.

The absence of formal collective bargaining conferences on an industry-wide basis does not mean that other procedures do not bring about the same results. Today the evidence of new union power on an industry-wide and national basis is that, quite without formal machinery on the level of an industry, key wage-bargaining relation-

industries and often for other industries as well. Even nonunion rates are influenced by these key decisions since the nonunion employer's best defense against organization of his own plant is to pay union rates or better.

A common procedure is negotiation with individual employers or plants after the national union has formulated uniform policy for the locals to follow. In the meatpacking industry, the principle packers sign individual agreements with the union, but expiration dates are the same and uniform wage policy is achieved.[4] In some other cases a single negotiation embraces the dominant firms, who act as wage leaders for the industry; wage increases in the rubber industry, for example, have been negotiated with the "Big Four."

In the steel industry negotiations with United States Steel set the pattern. Perhaps this is the most important wage bargain in the economy, for once this settlement is reached, thousands of wage contracts and nonunion rates elsewhere in the economy fall in line. Negotiations between the United Automobile Workers and General Motors constitute another major nerve center. And, of course, formal industry-wide bargaining in coal is also a major pivotal settlement for other industries.[5]

Beyond these, one observer finds major key bargains in flat glass, electrical equipment, aluminum, shipbuilding, agricultural equipment, and shoe machinery. They are interrelated: a contract which is a key for one group of industries may itself have been largely decided in another nerve center to which it is subordinated. Perhaps labor economists would agree that today between 25 and 50 major bargaining relationships fairly well set the wage pattern for the economy as a whole, union and nonunion firms and industries alike.[6]

The "first round" of postwar wage increases of 1946

was the earliest impressive demonstration that major wage movements for the whole economy tend to follow a pattern set by a relatively small number of critical bargains. The prolonged General Motors–United Automobile Workers strike of 1945–46 eventually produced a contract which spread, through these critical bargains, to become a basic guide to wage changes for subsequent months, even though it by no means produced equal wage gains for all workers in the economy. But the development of a complex pattern of key bargains and satellite wage movements was apparent even before the war, for between 1935 and the imposition of wartime wage controls wage gains in both union and nonunion areas showed an increasing tendency to follow the major union settlements.

Wage determination is therefore now carried on predominantly at the industry-wide or even nation-wide level. And the new procedures are here to stay. From the union's point of view they are a great gain. Industry-wide and national wage making is essential to "taking wages out of competition." Employers, aside from finding key bargains valuable in providing easy rules of thumb for wage policy, have in many industries long perceived the advantages of eliminating competition based on wage differences.

National coordination of wage policy is continuing, and certain of the postwar developments presage the future. Interindustry conferences to plan joint wage policy, like those of the Automobile Workers, Electrical Workers, and Steelworkers, suggest that more formal and deliberate union cooperation in raising wages is to be expected in coming years.[7] Some union spokesmen are now predicting nation-wide bargaining between aggregates of

unions and employers.[8] The United Automobile Workers have taken a step in that direction by proposing a joint CIO-AFL-Railway Brotherhoods strike fund.[9]

It would be unnecessary to elaborate on the general significance of industry-wide and national wage determination if we did not so often miss the meaning of the events taking place about us. Government price fixing apart, the economy has never before experienced anything like it. Private power over price in enterprise monopoly is an old story. But enterprise monopoly has never been so coordinated as both employer and union wage policies now are. In setting the price of labor, collective bargaining represents a larger exercise of discretionary authority over price than has ever before been accomplished. Today for the basic resource of the economy—labor power—the price-making forces of the market have been supplanted by private administrative authority on a vast scale.

The consequences of these two developments—unionism's growth and its coordinated national power—for the union's control of competition are several.

Consider first the threat to the employed union member of unemployed workers ready to take his place at less than union rates. It has long been argued that union power cannot survive in a labor market burdened with large numbers of unemployed who, driven by necessity, will eventually offer their services to the employer at low rates. This is another form of the contention that unions must control supply, a contention which has already been shown to be weak.

The unemployed may themselves be union members. Hypothetically, unemployed members could influence

wage rates from within the union itself by voting for wage decreases to expand employment. Actually, unionists do not usually believe that wage reductions will produce this result. Furthermore, unemployed members may constitute an easily outvoted minority. Even if a majority, they may be ineffective within the union because their participation in union affairs slackens once they lose their jobs and turn elsewhere for work.

The common belief is that these unemployed members, along with unemployed nonmembers, will undermine the union rate from without. They will infiltrate into the labor market by undercutting the union rate.

As a previous chapter has explained, the presence of the unemployed in the labor market is a threat to the union only in so far as the employer is persuaded by the availability of cheap labor to reduce wage rates for his employees as a whole. He cannot hire individual unemployed workers at less than union rates; instead he must challenge the union rate itself. The significance of the unemployed is that they can be used as strikebreakers, not that they represent an immediate source of low-cost labor.

Here the impact of the new developments in unionism shows itself. The growth of union membership has completely upset the "supply and demand" for substitute workers in case of strike. On the one hand, vacancies may be created by mass walkouts which no recruitment of substitutes among the unemployed in the area could ever fill. And on the other hand, the number of unemployed workers who are willing to serve as strikebreakers steadily decreases. Social pressures are strong; as unionism grows and its values and slogans become known everywhere, it becomes increasingly difficult to be a scab.

This new capacity of unionism to meet the threat of the

unemployed is partly a result of the large proportion of men in any one plant who can be counted on to strike under the union's leadership. It is also a result of the spread of unionism to a larger number of plants, which makes it possible for the union to shut down all the plants of a company at once, as in the Chrysler strike of 1948. Finally, it is a result of industry and national coordination, which makes it possible to shut down the plants of different firms in the same industry, as in the meat-packing strike of 1948. The result is that unionism has largely won its fight against the danger that unemployed or nonunion workers might replace union workers as wage rates rise.

The nonunion and unemployed worker are only one of the competitive threats to the employment of the union worker as his wage rates rise. It has already been explained that a second threat is competition among firms and that coordinated union power puts down this second challenge to the union. Just how it does so can easily be seen.

As the argument of the preceding chapter has showed, competition among firms, while failing in many circumstances effectively to limit union monopoly power, nevertheless is restraint in others. An extreme is represented by bargaining for permanent gains in a market which is highly competitive both for the product and for other factors of production. In this case, union monopoly power will be restrained because it defeats itself: any significant wage gain would eventually destroy the firm. The opposite extreme is represented by bargaining for short-run gains where market competition is weak both for the product and for other factors of production and where, therefore, great union gains are possible. Obviously

monopoly power varies according to the rigor of competition and the permanence of the gains sought.

It will be remembered that unions can be expected to raise wage rates—and it will be rational for them to do so—even if many of the members become unemployed as a result. Unemployment will deter this activity but not stop it.

Now in the case of industry-wide wage determination, competition between firms largely disappears as a limitation on wage policy, and only competition between industries remains. Ultimately, all products compete with each other, because the consumer will curtail his purchases of one commodity if its price rises relative to that of others, and transfer some of his expenditures elsewhere. But although this makes it certain that industry-wide wage increases will restrict sales and employment opportunities in the industry, it provides not the least assurance that employment opportunities will decline as sharply as they must if they are to prohibit monopoly rates.

It goes without saying that sales of the products of some few industries are so sensitive to price increases that large wage increases could produce disastrous reductions in employment. In these cases, union monopoly will be more effectively curbed. But competition among industries cannot in general operate with anything approaching the effectiveness of competition within an industry. High costs and prices can easily destroy a firm—a time does come when a firm will close down rather than pay a higher wage rate. But high costs and prices for all firms in the industry destroy neither the firm nor the industry. The product of one industry is ordinarily an imperfect substitute for the product of another. High costs and prices will turn some buyers away; they will find a substitute, a

desirable way of avoiding a high price. But some users of the high-priced commodity will persist in buying even at high prices because no substitute is satisfactory. At no point does the entire industry close down, as does a single firm where bargaining is local.

Much of the unemployment caused by the gradual restriction of output as wage rates rise will not be known to the union. In local bargaining where high wage rates restrict employment in the firm, the union cannot long escape noticing the consequences of its policies. In industry policies, on the other hand, high rates may cause unemployment in marginal firms whose employees constitute so small a fraction of the union membership that their plight escapes notice. Much more important, the gradual restriction of employment opportunities in the industry may produce no unemployed who are attached to the industry in any way. If there are too few jobs in an industry, new workers will turn elsewhere in search of jobs. If they find no alternative employment, they will be "the unemployed"; but they will be attached to no industry. Union policy in railroads, for example, will be no more concerned with unemployment among new unskilled workers in the labor market who have never been employed in the railroads than with unemployed harvest hands. Yet railway union wage policy may have caused the unemployment of the one group by reducing, through high labor costs and high prices, the railroads' demands for labor.

If wage determination goes beyond industry policy to follow key bargains, even competition among industries will no longer work its weak restraint, for again the unemployed will not be viewed as suffering from the policies of any union or industry. Appearing throughout the economy, their position will be attributed to general

economic maladjustment. If any union policy is applicable to such a situation, it is likely to be the stubbornly fought "no reduction" policy through which unions insist that wage reductions are no cure for unemployment. This position is likely to be maintained with tenacity and with widespread public support. Large numbers of workers and nonworkers alike are convinced that depressions are not remediable by wage reduction, a view for which there is much support among economists.

Wage increases throughout the economy may cause inflation rather than unemployment. This possible result of general wage changes will be examined in an appraisal in later chapters of the consequences of union monopoly. Here it is being maintained only that, to the extent that wage changes for groups of industries or for the economy as a whole do produce unemployment, that unemployment will not adequately check union monopoly. Either it will not be a heavy enough burden on union members or it will not appear as a union responsibility at all.

Because industry and national wage policies undercut the effectiveness of competition as a restraint on monopoly wage rates, the distinction between what is possible in the short run and in the long run is much less important than in local bargaining. There competition is effective, and increasingly so with the passage of time. True, industry and national policy may win short-run gains with less loss of employment than for long-run gains; but the difference is not critical.

Several case studies of multiemployer bargaining have produced a widespread impression among labor economists that "under national or regional bargaining, wage decisions are likely to be more sensible and far-sighted, taking into consideration the economic interests of the

industry as a whole, than is the case where the wage pattern is established by a 'wage leader' or by local bargaining, with the union playing one firm against another." [10] The evidence seems to justify the conclusion, for industry-wide bargaining is well suited to many of the needs of industry, as well as to those of national unions.

But what an industry needs—what is "sensible and farsighted"—is often monopoly. If industry-wide bargaining restrains the undisciplined local union from overreaching itself, it is often because it is better to make haste slowly. The farsighted union is a more effective monopoly than one which pursues every immediate advantage in the most opportunistic way. So far, the evidence on the "soundness" of policy in industry-wide bargaining does not deny its effectiveness in reaching monopoly goals; it only indicates that progress toward these goals can be made more orderly. Most emphatically, an intelligent understanding by the union of interindustry competition does not promise competitive rates since, again, it will often be to the advantage of a union to raise wages even if doing so causes serious unemployment.

The point will be made in later chapters that, from the industry's point of view, a monopoly wage policy pursued by a union on an industry-wide basis is often much to be preferred to a less monopolistic policy pursued through local bargaining. Hence, the condition of an industry or the willingness of its entrepreneurs to meet wage demands on an industry basis is no evidence at all of monopoly or its absence.

Morover, either the employer or the union may wish to use industry wage policy to manipulate the market. It was for some time the policy of the United Mine Workers to attempt to unionize all bituminous mines and then

through wage increases deliberately stop off production in the most inefficient mines. While this policy would forever displace from the industry large numbers of miners, it would leave the industry more profitable for the remaining operators and miners.[11] More than a suggestion is found in plans such as this that the union's recognition of the needs of an industry as a whole may lead not to a modification of union wage policy to avoid unemployment but, on the contrary, to control of the industry along syndicalist lines. These possibilities will be considered both below and in a later chapter.

As would be surmised from the argument of the preceding chapter, the possibilities for attaining monopoly goals in times of business expansion enlarge indefinitely under industry and national wage determination. Because, in growing sectors of the economy, high profits encourage expansion of output but are not necessary to survival of existing firms, unions can appropriate these profits in wage increases without reducing the number of jobs available to members. Union policy will in these cases restrict the total number of jobs that would be made available if the expansion were unchecked; but it is not responsive to the need for jobs for nonmembers not yet in the industry. If large numbers of its members are unemployed when expansion begins, the union may still press for wage increases, believing that the improved outlook for the industry will permit expansion of payroll along with wage increases.

It may also be added, in anticipation of the discussion of employer policy, that the employers most damaged by union policy in these cases, who would be most inclined to fight wage increases, are powerless. They are the potential employers who could enter the industry were ex-

pansion not checked by high wage rates. Not yet in the industry, their voices will not be heard. And employers already operating will often prefer paying out much of their gains in wage increases to encouraging through high profits the entry of new firms into their preserves.

The same line of argument is true roughly for cost-reducing technological innovation. Lower prices and higher output are of some advantage to the firms in the industry, but no more so than high wages and restricted output if wage rates for all firms rise together. The union stands at the employer's elbow insisting on sharing the benefits of cost reduction. The more distant consumer cannot effectively press for benefit in the form of reduced prices unless competition among firms is permitted to hold wage rates down when costs are reduced. This the union prevents by an industry-wide wage increase. Again, the possibilities of expansion of output at lower prices with the use of the innovation may be attractive to new firms, but they are not parties to the wage bargain.

It might be thought that a competitive check on industry or national wage policy is to be found in international trade. Industry and national wage determination never embraces the entire market for the product made by any one union so long as competitive production is imported from abroad. Foreign competition has in fact probably been a significant restraint on wage policy in Sweden and Great Britain, where very strong unionism would otherwise be expected to produce great monopoly gains.

But restrictions on international trade are now to be found throughout the world, and trade is generally disorganized, partly as a result of the destruction of productive capacity in Europe. Consequently, competition from

abroad can play only a trivial role in limiting union monopoly. And of course for some industries—housing and transportation, for example—it would continue to be ineffective even if free trade were realized.

At best, foreign competition under free trade is effective in minimizing union monopoly only to the degree that international specialization and division of labor does not develop. That is to say, since competition among firms within an industry is required to curb monopoly demands, effective foreign competition must come from firms making roughly the same products as are made by industry in the United States. Finally, the economies of Great Britain and Sweden are quite unlike the relatively closed economy of the United States. What competition can do in economies much dependent on foreign trade, it cannot do in ours.

CHAPTER VIII

CONTROLLING COMPETITION

(continued)

UNIONISM'S large membership and its growing coordination of policy, taken together with its tactic of controlling the buyer instead of alternative suppliers, provide the solid foundations of its monopoly power. They equip the union, as we have seen, with techniques for minimizing the danger that high wage rates will lead to the substitution of nonunion or unemployed workers. And they reduce wage competition both between union and nonunion firms and between high-wage and low-wage locals with such effectiveness that competition cannot prevent monopoly wage gains.

But unions do not rest on these accomplishments. To these techniques for controlling competition they add still others, of which two are especially effective. One is manipulation of the market for their products. Potentially of enormous importance, union practices for market manipulation help break the resistance which a limited demand for the product, a fixed product price, or vigorous competition among firms in an industry may offer to wage increases.

The demand for the product can be increased in a number of ways Frequently unions advertise their products. Or they may influence members to the same end; a hat worker, for example, will be asked not to go bareheaded. To protect or increase the demand for the domestic product as against the foreign, unions turn protectionist. In the Senate hearings on the Smoot-Hawley tariff, 21 union

groups testified on particular schedules, and for only two commodities did they fail to ask higher tariff rates.[1]

Government may be called upon in other ways to increase the demand for the product. The railway clerks have successfully urged legislation restricting the trucking industry.[2] The carpenters express their understandable liking for billboards by opposing legislation restricting their construction, just as the United Mine Workers can be counted on to fight the St Lawrence waterway project.[3] The examples can be multiplied indefinitely.

One device for shifting the demand from nonunion to union firms is, of course, well known—the union label. Over 50 AFL international and national unions have adopted labels. "We don't patronize" lists are also common. But persons outside the labor movement can sometimes be reached only with more elaborate devices. Sometimes these are quite ingenious. From 1928 to 1933 when the Rocky Mountain Fuel Company was the only union coal operator in Colorado, its sales were promoted by the organization of a central Coal Sales Committee, which enlisted the support of the mine workers' union along with the State Federation of Labor, the Trades and Labor Assembly of Denver, the Denver Building Trades Council, the women's auxiliaries of various unions, and a number of unions outside the state.[4] The campaign was directed at both individual and institutional consumers in the hope that the public could be persuaded that purchase of union coal provided an escape from the expense and bloodshed of strikes then common in nonunion mines.

Out-of-town producers may often be excluded from local markets to give the employers of local members a special advantage.[5] Or the requirement that certain types of work be done on the job can be used to maintain a de-

mand for union work—prefabrication can be barred, for example, to protect the jobs of local carpenters—although this requirement may also reflect the union's interest in output restriction as an indirect technique of wage raising. These practices are largely limited to segments of the labor movement, especially the building trades; and the extent to which they can be practiced even in these areas is somewhat limited by law.

Whether dikes protecting local as against "foreign" workers are involved or not, demand for union products may be protected by the refusal of union workers to work with nonunion products. Manufacturers of printing equipment, railway equipment, and electrical appliances, hotel and restaurant supply houses, and small general machine shops, for example, may all be compelled to give way to demands from their own unions because the sale of their products brings them into contact with powerful building trades unions in the large cities.[6]

In manipulating the demand for the product, the union is doing nothing more than putting to its own uses the techniques of market control practiced by enterprise monopoly. Some of these practices—advertising, for example—can scarcely be called disruptive. Perhaps none of them taken alone are now of any great consequence. They are not, however, to be taken alone, they are supplementary to wage bargaining. In this supplementary role they will constitute for some unions the difference between success and failure in monopoly, for clearly some few industries can be forced to raise wage rates only in a protective shelter. The Colorado miners mentioned above could hardly raise wage rates directly in one union firm without damaging its competitive position; but their efforts to stimulate demand for union coal could stimulate

sales as an offset to high-wage costs. Pottery workers, for instance, cannot begin to raise wages in some branches of the industry until a tariff restricts competitive imports.

The product market may be influenced more directly than through control of demand.

When United States Steel once asked the steelworkers to accept a wage cut because of impending price reductions, Philip Murray called attention to the "cutthroat" price practices of the industry by threatening publicly: "If the steel corporations cannot put their own house in order, it is the avowed purpose of the organized steel workers of this nation to promote a constructive legislative program that will adequately protect the interests of the industry and its workers." [7] Again in 1946 the negotiations turned on price policy, and a wage increase was made to depend upon a price increase. This is hardly typical, yet many unions do exert a very direct influence on price policy in this and other ways.

Unions may refuse to allow their members to work for price-cutting employers and may strike against them. They are sometimes also able to exert control over the product price by altering the market relations between themselves, their employers, and middlemen. The needle trades have restricted the number of contractors each jobber may employ and have insisted that the contractors be paid enough to allow them, in turn, to meet union wage standards and cover overhead expenses. They have also sought to eliminate price competition between contractors by the settlement of piece rates directly with the jobber.[8] Many other unions have similarly allied themselves with other parties in the market whose interests coincide with theirs, although usually these alliances are very informal.[9]

Manipulating the market is time and time again a co-

operative union-management venture. Lobbying for tariff protection and other legislative favors, for example, is often jointly conducted. So is the maintenance of dikes to protect local firms and workers. When formal associations develop, these and other techniques of product-market control are made more effective.

The tactics of the Seattle teamsters show the strength of such an association as a method of fixing prices and raising wage rates.

The Teamsters claim jurisdiction over "everything on wheels"—all drivers and delivery men, including auto salesmen and garage employees—and have about 20,000 members in and around Seattle. The closed shop is maintained by fining members for working with expelled members or non-union men, or for teaching the work to a man without a union clearance card. With drivers and delivery men 100 per cent organized, the Teamsters' Union can prevent any employer from receiving supplies or delivering his product. Economically, a city is very dependent upon transportation, especially where distances are great as in the Far West. By controlling transportation, the union controls the local market and holds a whip hand over any erring industrialist. This power has been used to "organize the boss," by causing enterprisers to join employers' associations, like the Laundry and Dry Cleaners' Association, the Truck Owners' Association, the Garage Owners' Association, the Milk Dealers' Association, or the Bakers' Association, which collect "dues" and are sometimes administered by former union officials These associations, to which employers may give power of attorney over labor matters, make blanket agreements with the union covering all employers in the association. The associations and the union cooperate to raise and regulate wages and prices, and to follow a policy of controlling competition and or organizing concerns so that they will charge the "stand-

ard" price. The union may refuse to handle goods produced by employers not in the association or that are for sale at less than the "standard" price. Members of the union may be expelled or fined for failing to "come out" of a firm declared unfair by the union.[10]

Although associations for price maintenance are not so widespread as those for wage standardization, they have been a power in at least the following areas: trucking, printing trades, building trades, clothing, and service trades.[11] The bituminous coal industry should probably be added to the list, although under the Guffey Act price setting was legally a government function.

Short of an association, still other arrangements limit competition. The very number of competing firms may be curtailed by deliberate restriction of entry into the industry. This can be achieved through wage policy itself. The New England teamsters apparently encourage the development of large firms at the expense of small ones because they prefer to deal with fewer though more powerful firms. They do not discriminate outright. Instead a concealed concession is given in special wage rates for "shuttle runs." Only the larger firms with terminal facilities in both of the cities between which shuttle runs operate can claim the reduced rates.[12]

The number of competing units may also be decreased through a nondiscriminatory policy simply by raising wage rates and concentrating production in the decreasing number of firms able to meet higher labor costs. Or it is possible to decrease the number of competing firms by eliminating the owner-operators. As one example, in 1941 the Department of Justice reported that in Pittsburgh 65 small trucking concerns were being forced out of business by the teamsters' union, which would not admit the

drivers into the union or allow the firms to hire union labor.[13]

For all the variety of the techniques which may be used to manipulate the market, their effectiveness is limited both by the difficulties of establishing many of them except in special circumstances and by occasional legal prohibitions. But as supplements to union monopoly established directly through control over the wage rate, they are significant for what they actually accomplish in the product market, as well as for the inference to be drawn from them that unionism will, where it can, in effect reorganize the competitive system to reach its goals. Some of these practices represent relatively permanent and systematic alterations of the very structure of product markets. Where unionism can substitute a large measure of administrative for competitive control not only in the labor market but in related markets, it emerges as a far more potent disorganizer of competition than would otherwise be supposed.

A last group of techniques through which unions counter the restraints imposed by competition on their wage policies is designed for a very special problem—the labor-displacing machine. Competition from machines, like that from competing firms or nonunion workers, reduces employment as wage rates rise. The threat of the machine is ordinarily slow in making its appearance, since in the short run wage increases do not usually induce the employer to substitute capital for labor. But eventually it appears. Given time, an employer can profit from changing his productive methods to avoid high-cost labor.

Where a labor-saving method of production is far superior to a method which uses relatively more labor, the

two methods are not substitutes for each other. Effective competition does not exist between them. If machine-worker competition can restrict wage increases, it will presumably do so best in cases where the superiority of a new machine over an older method is slight, for then over a period of many years more than one technique will be in use, and the employer will change from one method to another depending upon their relative costs. Under these circumstances, a union may be expected to see that the situation is not hopeless, that machinery will not be substituted for men inevitably, but only depending upon their relative costs. If machines do not restrain union monopoly in these circumstances, they will hardly succeed in any others.

A few illustrations will show what union policy may be under these circumstances and how ineffective machines are in restraining wage demands even in the absence of special union controls. In the hosiery industry, at a time when both single-job and double-job knitting systems (one and two machines per worker, respectively) were in use, the union recognized that the displacement of workers involved in the double-job system could be minimized if it were willing to modify its wage demands. In 1930, for example, the union allowed extension of the double-job system in order to protect its wage standards from the severe wage cut that would otherwise have been necessary.[14] The following year a return to the single-job system was achieved by granting major wage concessions, which were deliberately used as an inducement.[15]

But the hosiery workers were not willing to allow their wage demands to be limited to an extent sufficient to maintain the single-job system permanently. Over a period of years and partly as a result of its insistence on the single-

job system, the union lost much of its power. Hence it might seem that competition of the machine was an effective limit on wages, but actually nonunion competition was an added factor. Had nonunion mills not been free to use machines as they wished, the outcome would have been different. With modern industry-wide wage policy, the threat of nonunion shops would be minor.

In bituminous coal, wage increases have encouraged the greater use of mechanical loading equipment, as in 1934 when the seven-hour day was introduced with accompanying wage increases. While the proportion of the total output of deep mines which was mechanically loaded was practically stationary for three years preceding 1935, it rose immediately after that until by 1937 it had increased 64 per cent over 1933.[16] Although the mineworkers knew that high labor costs stimulated the introduction of machinery, they did not significantly modify their wage policy, and high wage rates have continued.

In the trucking industry technological innovation, which has been going on at a rapid pace as labor costs have risen, has had little effect on union wage policy. The expansion of the industry has made it possible for an increasing number of truck drivers to find jobs year by year despite the use of labor-saving loading equipment and larger trucks.

Clearly union wage policy is often not significantly checked by unemployment which arises from machine substitution. In general what was postulated with regard to competition in the product market is equally true of machine-worker competition. Unemployment arising from labor-displacing machinery appears to be neither more nor less effective in limiting monopoly wages than unemployment from competition in the product market.

Nor should anything else be expected. For reasons already advanced, very large losses in employment do not necessarily induce a union to moderate its demands.

When unions turn to techniques of controlling competition between men and machines, checking wage increases by introducing machinery is an even less promising possibility. Certainly the common argument that mechanical innovation destroys the strength of the union itself becomes invalid. A policy of control usually establishes union jurisdiction over the men who operate the new technique, thereby maintaining the union's control of wage rates. Especially with the development of industrial unionism and the conversion of many craft unions to industrial jurisdictions, the obsolescence of particular crafts still leaves the union well entrenched in the firm and industry. The union follows innovation rather than be left behind. It will continue its wage bargaining, although for somewhat altered job classifications. Even craft unions are sometimes able to redefine jurisdiction in order to maintain power over wage rates, as is common in the building trades when new building materials are brought into use.

If the union can successfully obstruct an innovation, it can further disregard the effect of wage rates in stimulating the introduction of machines, since the machine can be introduced only with the union's permission. The mineworkers succeeded at one time in holding back the introduction of mining machines. By regulating the wage differential between machine and hand methods, they withheld from the employer much of the savings from using machinery, with the result that its further introduction was retarded.[17] Other unions have, of course, occasionally

used the strike power directly to prohibit labor-displacing machinery.

Ultimately the establishment of a policy of obstruction, however accomplished, depends upon the union's ability to control the employer. Union obstructions cannot be established unless he accepts them. But whether obstruction is successful or not is really not a key issue, since the threat of the machine is minimized in the main by the establishment of jurisdictions which adjust to technological change.

Through their size, organization by industry, industry and national wage policies, and control of the machine, unions have ample techniques for pushing back the limits which competition would impose on wage gains. It has so far been shown that competition neither from unemployed or nonunion workers, nor from low-wage or nonunion firms, nor from the machine can effectively limit union wages. High-wage policies cause unemployment in firms and industries in the long run, but the union's techniques of market control reduce the amount of unemployment which falls as a burden on union members until it can no longer serve to check monopoly wage rates.

CHAPTER IX

EMPLOYER RESISTANCE

EMPLOYER resistance is commonly thought to be an adequate check on union monopoly, in spite of the fact that unemployment from high wage rates in a firm or industry cannot dissuade the union from the pursuit of monopoly gains. Economists are not of one mind on the effectiveness of employer resistance; but some of them, and perhaps most laymen, believe that in the stratagems of the bargaining table and the crude force of the work stoppage a kind of equilibrium is established between union and employer power. The facts appear to contradict such a view. In the absence of strong competitive checks on union power, the employer cannot maintain competitive rates.

In bargaining between enterprises—a manufacturer and a supplier, for example—price is usually set when the parties believe they enjoy better terms in the proposed contract than are available elsewhere. A union may similarly seek to win an employer over to its demands by making its offer more attractive than any alternative. In such a case an obvious possibility is that the union will pledge a contribution to greater efficiency of operation in exchange for a wage concession. Or it may assist the employer in organization to "stabilize" the industry. But often the alternative open to the employer if he refuses the union's terms is the same labor supply—the same individual workers, in fact—at a lower rate than that asked by the union. The union must therefore be able to coerce him. This much has already been explained.

In the light of this, what is the employer's position in the face of a demand for a wage increase? One alternative he faces is interference with his income and possible capital loss through work stoppage. On the other hand, he confronts possible loss of income through higher costs if he yields. Further, he recognizes that efficiency of operation may be either increased or decreased by yielding to the union, depending on a number of factors such as morale and discipline. He also knows that the union may be used to protect or strengthen his competitive position through its activity in competitors' plants or in the product market.

With respect to loss of income through work stoppage, the effectiveness of a strike in causing loss depends, of course, upon the strength of the union, its financial resources, the solidarity and group feeling of its members—upon a host of political factors covering various aspects of the organization and functioning of the union as a political group Such factors as the financial resources of the employer, the timing of the strike, and the perishability of the product are equally important. Stoppages have not infrequently driven firms out of business or permanently curtailed their markets.

The employer may be able to minimize his losses. Where production only is interrupted, sales may be made from stock; and where production and sales from one plant alone are stopped, they may be taken over by another plant of the same company. Production is not always continuous, it may be interrupted for maintenance and repair work, preparation for special orders, or to prevent oversupply. Consequently, deliberate work stoppage may merely alter the schedule of production without curtailing it.

In large part, the competitive position of the employer

will determine how much he loses. The Philadelphia photoengravers once won a strike when New York competitors of their employers came to Philadelphia to steal the market which the struck plants could not supply.[1] If a group of competitors are struck at the same time, it is possible for them to profit by temporary restriction of supply and consequent price increases The importance of the competitive position of the employer is a factor in the development of employers' associations with their many techniques for minimizing the loss from work stoppage.

The resistance of the employer will depend also upon his appraisal of the relationship between the wage issue and nonwage issues. In a particular dispute an employer may balance the cost of a work stoppage not only against the loss which he will suffer if forced to pay increased wages but against other losses which he may believe are attendant upon the presence of collective bargaining in his plant. Many firms offer wage increases to their employees as a method of discouraging them from joining a union. The rubber firms of Akron, for example, granted six wage raises between 1933 and 1937, apparently to prove to their employees that unions were unnecessary.[2]

Several other factors are important, although they do not exhaust the list. Inadequate knowledge distorts the calculation of gains and losses; but there seems to be no possibility of deciding whether it increases or decreases resistance. The employer's fear of his competitors may lead him to be suspicious, although cooperation with them or with the union might actually be profitable in dollars and cents. Furthermore, the internal politics of large business units will affect policy in much the same way that internal union politics affects union policy. Finally, the

employer does not consider each negotiation in isolation from others. The outcome of one dispute sets the stage for the next; what is yielded now may either encourage or forestall further demands in the near future. The employer is thus forced to consider his wage negotiations as stages in one continuing process.

As for the union, in the face of employer resistance it must balance the possible wage gain to be had through a successful strike against the loss of income during the strike itself. It must also weigh the possibilities of making no gain, of losing ground, or of receiving a setback in organizational strength. But even before the union can consider how to formulate its policies in accordance with the alternatives open to it, it must have the power to make reasonably certain that its strike will actually interfere with the employer's income.

The factors which determine whether a strike will effectively stop production are well known. The union must either conduct it under conditions which preclude the recruitment of strikebreakers or discourage them from replacing striking workers. Potential strikebreakers can be dissuaded either by persuasive appeal or by intimidation and physical force. Where the possible replacements are members of another union, it is generally true that they will refuse to offer their services, although rival unions sometimes welcome opportunities to break each other's strikes. Where the potential replacements are nonunion, the usefulness of noncoercive persuasion will differ from case to case, depending upon the sympathy of the nonunion men for the immediate ends pursued by the strikers and upon their attitude toward unionism in general.

Violence on the picket line is testimony to the degree to which intimidation and physical force have had to sup-

plement peaceful persuasion in turning away potential strikebreakers. Violence or the threat of it is not merely a symptom of frayed nerves or of personal animosity. It may be that incidentally, but fundamentally it is quite deliberate. To be effective a strike must stop production. If peaceful persuasion fails, the choice is between coercion or defeat.

Although quantitative information is lacking, it may be true that in most cases a union makes its strike effective without having to deal with potential strikebreakers either by peaceful persuasion or by coercion. Factory workers can often close down production simply because, although most of the strikers can be easily replaced, some of those possessing skills or experience in strategic jobs cannot. A strike of tool-and-die workers alone in only twelve General Motors shops in 1939 re-established the United Automobile Workers in forty-two General Motors plants.[3]

The strategically situated workers need not be employees of the same company as most of the strikers, nor need they be in the same union. While it is often possible to replace the striking workers, it may not be possible to replace, say, the highly organized truck drivers, who by refusing to cross the picket line curtail the delivery of material. The strength of the union's hold on the trucking industry is so great as to make nonunion trucking often hazardous.

If the union can close down production, the question remains whether it is profitable for it to do so.

Occasionally it is suggested that strikes are commonly terminated by the financial exhaustion of one of the two parties, that is to say, the strike proceeds until the employer is at the point of bankruptcy or, more typically,

until the union's treasury is exhausted and the strikers and their families are destitute. Bankruptcy concludes some work stoppages, it is true; and often a strike degenerates as an increasing number of workers in need of income straggle back to work, as in the meat-packing strike of 1948. This is far from typical, however. With strong national unions and large corporate organizations, both parties will ordinarily compromise long before the struggle becomes one of solvency or survival. A large and relatively permanent organization such as the United Steelworkers can hardly be expected to fight a wage issue to the point of jeopardizing its very life. There must be in the great majority of cases a kind of calculation of possible losses and gains, although a variety of irrational or nonrational influences enters into the union's decision to strike or to surrender.

The financial loss to the workers in a strike is not necessarily measured by their daily wage multiplied by the number of days in which work is stopped, any more than the employer's loss is calculated by the number of days during which his income is reduced. Workers may make up lost production through overtime, or they may find that the stoppage is being used for maintenance work that would have required a close-down in the absence of a strike. In some rare cases—the mineworkers, for example—unions have undertaken work stoppages with the primary purpose of removing surplus stocks in order to protect prices and their wage levels.

Beyond these possibilities, the workers' income is almost always bolstered by relief, unemployment compensation, or strike benefits. The latter are provided either through a regularly established system or by special appeal. Benefits are usually financed in part by contributions from the

national union; and the striking workers thus possess a device not only for accumulation in advance but also for pooling funds from a large number of workers. Special assessments are sometimes levied by the national in order to place additional funds at the disposal of the striking workers. In important cases, the national union itself may receive aid from other national unions. Thus ability of workers to maintain themselves without wages is great, and depending upon the importance of the issue involved, a strike can be prolonged for months.

It is easy to fall into the error of believing that the settlement of a strike will depend, so far as financial loss is concerned, upon whether the employer's loss through work interruption is greater or less than that of the employees. What is actually significant is the independent estimate by each of the two parties of the alternatives open to it and of the gains or losses involved in each alternative.

Strictly speaking, the loss suffered by the entrepreneur is not necessarily personal income. Rather it is a loss charged to the enterprise as a business expense and it may be considered as one of the costs of production. In corporate enterprise, the strike loss may have no effect at all upon the income of the persons who decide wage policy for the firm. In such cases, a satisfactory explanation of the effect of financial loss on the decision to resist cannot be had without considering nonmonetary factors in the reputation and success of management in the corporation. In the case of the union, strike losses cannot be treated as a cost of production and shifted to the consumer. The loss of income from work interruption may consequently weigh more heavily on the union.

In addition to financial loss from the stoppage itself, there are other possible consequences of a strike which

modify the vigor and militancy with which a union pursues its goals. One danger from defeat is loss of effectiveness of the union itself when despair and disunity set in and membership declines.

An enterprise exists for the purpose of producing goods and services; its conduct of a strike and its labor policy are merely incidental to this primary purpose. Failure to win a strike does not often threaten the life of the firm. Furthermore, neither the employees individually nor the union through its official policy considers the purpose of a strike to include the permanent weakening or destruction of the enterprise. A union, on the other hand, is formed for the purpose of inducing the employer to grant wage and other concessions desired by the employee. Every strike puts the union to a test in the eyes of the membership, and every prolonged or unsuccessful strike may diminish the interest of the members in the union and their willingness to support it. The union prospers or declines on the basis of what it can do for its members in dealing with the employer.

Among all these influences on the bargaining process none can be found which promises generally to limit monopoly wage demands. True enough, some of them will emerge as important restraints in particular circumstances, for union power will vary greatly from one situation to another. And as a group they indicate that unionism must proceed slowly, that it cannot have all it wants merely for the asking. This, however, is the most that can be said for the effectiveness of these restraints.

But certain additional factors can be identified which definitely favor union power. They explain why unionism will inevitably succeed in the face of employer resistance.

The first follows from the discussion in the preceding chapter of the union's power to control the competition of nonunion or unemployed workers. The growth of unionism and its extension into almost every industry have produced a shortage of strikebreakers. This has increased the power of the strike, whether competition from nonunion or unemployed workers is an issue or not. With increased membership, the union rule which restrains members from crossing any picket line is strong enough to regulate the behavior of the great majority of potential substitutes.

In this connection the union shop plays a particular role. Because union membership becomes a condition of employment, large numbers of men are brought into unions, where they can be persuaded to respect union rules. In this way the union shop becomes a major instrument for restraining workers from crossing a picket line. Since the union shop is itself won by the strike power, it is not an independent influence. But viewed as a strategic move, it smooths the path to wage gains. If the union pursues the union shop before it attempts wage gains, it in effect gathers increased power to win subsequent wage gains. The union shop increases the financial resources of the union, it is true, but it is more important as an instrument for controlling large numbers of workers in case of a strike.

As the number of available strikebreakers has declined, the employer's need for them has grown. As already observed, the size of the striking labor force itself may preclude replacement. Today also riot and bloodshed are often the consequences of attempts to break strikes, each involving thousands of men, as in the mass-production industries. Employers as well as public officials realize the impossibility of holding large numbers of men in check

when a cause which is for the moment vital to the union is threatened. It will be remembered that in the 1937 General Motors sit-down strike, the local authorities did not dare enforce an injunction ordering workers out of the plant.

The unmistakable evidence of the shift in power from these causes is the growing number of employers who no longer try to operate a struck plant.

A second factor undercutting resistance to wage increases is the difficulty of formulating an intelligent wage policy in the business firm. The union is fairly clear in its general objectives, but the employer is troubled with a complex set of input and output prices and quantities which do not easily disclose the advantage of one wage policy over another. The union therefore aggressively pursues wage increases, and the employer comes increasingly to find in key wage settlements a fairly happy rule of thumb which greatly simplifies his problems. He follows the lead given him by wage settlements in such centers of union strength as steel, coal, or autos and transmitted to him through key bargains in his own or a closely related industry. Such a procedure is not only relatively simple in comparison with wholly independent negotiation, it has the further great advantage to the employer of assuring him that whatever major errors he makes in wage policy will be made by most of his competitors, who follow the same lead.

The strategy of bargaining further weakens the employer's resistance to wage demands. This is a third factor in union strength against the employer. Since every wage dispute puts the union to a test in the eyes of its membership, shrewd employers have often resisted wage demands as a method of undermining union power and destroying the organization. But most employers today are either re-

signing themselves to a union movement here to stay or embracing it in the hope of turning its energies to productive purposes. The consequence is that a major motive to resist wage demands is now fast disappearing.

Management's authority, rather than union survival, is today's major strategic issue. Because fresh encroachments are made upon managerial prerogatives day by day, employers now seek to protect their power by appeasing the union with wage increases. The employer often has a choice, what he does not wish to grant in managerial functions he can preserve by "buying off" the union. He knows too that wage concessions can often be regained in price increases, power lost to the union is often gone forever. The tables are turned; the struggle for power now lowers rather than raises resistance to wage increases.

From the argument of the preceding chapter on industry and national wage policies, one would expect employers not to resist industry-wide increases as they resist increases for single firms. This becomes the fourth and most impressive single reason that employer resistance cannot be counted on to hold unionism in check. Employers often do not wish to resist at all; what is more, they often find it profitable to encourage wage increases on an industry-wide basis. Any appraisal of the effectiveness of employer resistance to union wage policy which assumes that employers wish to act as guardians of competitive rates is certain to go wide of the mark. Yet such an assumption is much more common among laymen—and perhaps among economists—than the contrary.

Industry-wide and national wage determination removes in large part, sometimes entirely, the employer's fear that concessions will damage his competitive position. It also makes possible easy concession in times of business

expansion and equally easy concession to union demands for a large immediate share of the benefits of technological innovation. And second and third concessions, yielding each time to rates increasingly far removed from competitive levels, are no more difficult than the first, given time for the adjustment of the firms in the industry to a new output. Even this adjustment is not necessary where repeated advances merely hold constant a number of firms and level of output which otherwise, through expansion of demand or reduction in cost, would grow larger. It should go without saying that, if it is easy to concede, the employer will do so, for harmonious relations with his work force are an asset to be prized.

The employer may even take the lead in proposing wage increases as a method of minimizing competition within the industry.

Horace Greely in 1850 stated the employer's view on this possibility as well as it has been put:

> I am an employer, and am in favor of paying good wages, I believe it is for my interest to pay the highest prices, if not above those of other cities. The curse of our trade is the ease of competition, and the facility with which newspapers may be set up. I believe it would be for the advantage of established journals and the larger book printers to advance the rate of wages 25 percent. What is the difference to the employers what the rate of wages is if it be uniform? The extra money which they would pay out at maximum prices would return to them in the form of diminished competition.[4]

The characteristics of some industries encourage such a policy. Building construction, with its high labor costs and ease of entrance, is a case in point. The practices of the Seattle teamsters, mentioned in the last chapter, are a demonstration of how far employers may go in granting wage

demands when they are protected from competition. Other cases mentioned there indicate that employers will often be pleased to grant concessions in return for "stabilization." Illustrations of employer cooperation in wage increases incidentally demonstrate again the many tendencies in collective bargaining toward a kind of syndicalism in which unions and employers collaborate to control wages, prices, and output.

If some ground for confidence that employer resistance is a sufficient restraint on union policy seems to remain, it may be because of the confusion surrounding the concept of bargaining power. The argument that unions and management must be fairly evenly matched in bargaining power seems plausible. They are strong and self-reliant adversaries, each quick to discover and put to use new techniques for subduing the other.

Perhaps the quickest way to grasp the naiveté of this position is to understand that "bargaining power" is not a special factor in wage determination. All that the term can mean is the total of the forces which impinge upon wage determination; and they do not equalize the power of employer and union.

There are three categories of these forces. First are skills in techniques of persuasion and coercion, such as abilities important in winning points around the bargaining table, the talent to outguess and outbluff, the capacity to appeal to public opinion, or the ability to organize a strike or lockout. Second are tastes, goals, and motives such as patience, stubbornness, toughness, the willingness to picket and go without wages or the willingness to see one's business brought to a standstill. Third are competitive pressures, such as loss of business to a competitor not on

strike, loss of customers if prices must rise in response to increased labor costs, substitution of machines for costly labor—all the competitive influences which previous chapters have examined.[5]

Now there is no reason to believe that unions and employers differ significantly with respect to skills in techniques of persuasion or coercion. Nor do their tastes, motives, and goals differ so as to produce significant advantage for one or the other. Moreover, any thoughtful consideration of the relative importance of the three categories leads to the conclusion that these two are by no means so important as the third. But to consider the third category and its implications for the relative power of unions and management is merely to repeat the analysis of this and the preceding chapters in which the competitive positions of the union and the employer were examined. The major competitive pressures restraining unionism, if any exist, are those from nonunion and unemployed workers, machines, and low-wage or nonunion firms. But all of these were shown to be inadequate.

In short, employer bargaining power is largely a reflection of market conditions rather than an independent major wage determinant. If, then, competition is an inadequate restraint, employer resistance can hardly be more effective.

Union power varies so much from one situation to another that it can never logically be argued to be nicely matched by employer power. Yet if it is possible to conceive of a kind of equilibrium of power between a union and an industry, it will be a competitive equilibrium only by accident. An equilibrium at competitive levels would presuppose that unions aim above competitive rates and employers aim below.

But far from directing policy toward subcompetitive levels, the employer does not even seek a competitive level. He neither knows nor cares what the competitive rate is. Nor is the union aiming simply at higher than competitive rates. Whatever the rate, the union will always want more—and will sooner or later go after it.

The employer's view is commonly misunderstood. If because of monopoly rates his industry has already been producing less than it would have under competitive rates, the restriction of output may be reflected entirely in a smaller number of firms in the industry rather than in his individual firm output. If so, the individual employer's position is neither better nor worse than if production for the industry were at a competitive level. His attitude toward wage movements is exactly what it would be if the industry were at the competitive level. He will be no more inclined to depress wages in one case than in the other.

Thus wages are set by negotiation between two powers, one of which incessantly presses for higher rates while the other comes to accept the dispute as one over the size of the concession. Only occasionally will a wage decrease be an issue. Under these circumstances, employer resistance as an effective limit on union monopoly is neither fact nor hope.

CHAPTER X

UNIONISM'S POWER

THE thesis of this book has now been developed to a point at which it is desirable to pause to consolidate the argument, summarize the primary factors in union power, and draw out some of the implications of the preceding chapters which for simplicity's sake were left undeveloped where they were first suggested.

Union power is most impressive when set in contrast to enterprise monopoly, for only then do some aspects of union monopoly already described stand out sharply as sources of strength. Moreover, some new sources of union power are revealed by the comparison.

A primary factor in union power is that it escapes the limit imposed upon every enterprise by declining profits if price goes too high. Every firm operates on a price-quantity computation. Consequently, it cannot profitably move price upward indefinitely, for the gain in price will at some point be more than offset by loss of sales. No such limit curbs the union. True, employment may fall off as the union pushes wage rates up, but this does not necessarily reduce the earnings of the policy-making groups within the union, even if they represent a large majority. The losses in employment opportunities may be suffered by an outvoted minority or by persons who, given a more restrained wage policy, would have entered the industry in the normal turnover of workers. Indefinitely high wage rates may never be detrimental to those remaining in the union who make policy.

The public's reaction is more encouraging to wage increases than to price increases. Except for periods of inflation, consumers expect prices to remain constant or decline. They commonly believe that year by year in an expanding economy more products can be had at decreasing prices because of low-cost mass production. They know that technological innovation has been and still is a powerful cost-reducing influence, the benefits of which they expect in the form of a gradual lowering of prices for many manufactured commodities. As a consequence, enterprise monopoly is to a degree restrained from price increases by its fear of an enraged public opinion and possible legal prosecution for monopoly. It is constrained to follow a stable price policy—the less attention drawn to price, the better.

But consumers have learned to take increases in the price of labor as a matter of course. Increases in productivity through new invention are expected to show themselves in rising wage rates and at the same time to reduce prices. Since it is generally thought that a growing national income cannot be equitably divided without wage increases, unions can negotiate repeated wage increases indefinitely into the future. These gains will be widely accepted as reasonable whether they are in fact based upon increases in productivity or upon monopoly power. Thus union policy becomes typically one of recurrent increases.

Whatever the wage rate demanded, it will be the same as or higher than the existing rate; and in ordinary circumstances the employer will accept this choice as the issue for negotiation. Only in a time of general depression could consideration be given to a threefold choice in the negotiation of new rates. higher, the same, or lower. Yet even then the choice will increasingly be limited either to the

maintenance of existing rates or to an increase, for unions are able to enforce their traditional "no reduction" policy with increasing success.

If enterprise monopoly establishes a high price, the spread between cost and price provides an obvious standard by which the enterprise may be judged monopolistic. But in the case of unionism no price, cost, or wage rate provides a bench mark against which monopolistic wage increases can be measured. Nor is the financial condition of employers an adequate criterion. The buyers of labor will adjust their investments and outputs to the new wage costs, even if the output of the industry as a whole is curtailed. Some firms may be forced out of business, but with the passage of time the firms remaining will be just as profitable as those previously in the industry.

Quite aside from any comparison between union and enterprise monopoly, it cannot too strongly be stressed that increasingly high wage rates do not necessarily put an industry as a whole under growing financial strain. Industries may adjust to high wage rates, readjust again to even higher wage rates, and so on indefinitely. All that is required is gradualness.

The absence of a bench mark against which monopoly gains can be empirically measured from year to year does not mean, of course, that monopolistic and competitive rates cannot be distinguished analytically. The consequences of a monopoly rate for the growth of an industry can be great even if the industry's growth is empirically observed to respond to a complex of influences among which the influence of wage changes cannot separately be perceived. Monopoly rates will raise price and restrict output in an industry; but in any given case of price and output changes no obvious evidence of union responsi-

bility will be found. It will be known that both wage rate and price are high, but whether the wage rate is a monopoly rate will not be known.

Enterprise monopoly is sometimes curbed by its own costs. A firm wishing to expand in order to gain control of the market will sometimes run into prohibitive increase in costs per unit of output. Union monopoly knows no corresponding limit, for the union is not a profit-seeking enterprise governed by cost and price.

It is sometimes thought that just as competition between firms or industries inhibits price increases, competition between unions can restrain wage demands. Perhaps this hope has been heightened by the continued rivalry between the CIO and AFL. In any case, the suggestion looks for similarity where difference is the fact. For the enterprise always competes with other sellers, and its customers may always turn elsewhere to spend their money. In contrast, the union usually does not compete. The buyer of labor is confronted with the fact of sole bargaining rights legally granted to the union with which he negotiates. And quite aside from the law, it is not possible for an employer to negotiate with two unions covering the same categories of his payroll.

To be sure, one union may eventually threaten to displace the other, even though at any time the employer must deal with a single union. But then the two unions will compete with each other primarily by appeals to workers rather than to the employer. Although unions have sometimes sought footholds in firms by making concessions to employers which other unions were unwilling to offer, ordinarily the choice of union is in fact in the hands of the employees and is also placed there by law. The consequence is that competition between unions leads

to rivalry in winning new wage increases and does not bring wages down.

High monopoly profits induce new firms to enter an industry and break the monopoly, but high wage rates do not induce workers to enter a monopolized labor market and break the union's power. Again union monopoly holds an advantage over enterprise monopoly. In the first place, high wage rates are only a limited attraction to union centers if no jobs are available at the high wage rates. Secondly, workers who are attracted cannot ordinarily cut the wage rate.

In the comparable case of high prices as an inducement to the entry of new firms, newcomers may cut the price of the products and thus win buyers over from the established businesses. But the nonunion worker cannot ordinarily offer himself to buyers at less than the union rate. It has been shown that even in an unorganized market employers do not respond to the wage and employment offers of individual workers who seek to undercut prevailing rates in the firm. To admit new workers at a lower rate the employer must make a major change in wage-rate structure, and unionism is organized to control the employer when he makes such a decision.

The power of unionism is revealed again in its distinctive tactic. Unlike enterprise monopoly, which does not ordinarily seek to control the buyer, the union operates by applying pressure in a series of short-run crises in which it can exploit the employer's vulnerability. It makes demands when the alternatives open to the buyer of labor are limited by the jeopardy in which the firm's investment is placed by a work stoppage. Fixed costs continue while the plant is shut down.

It is true that enterprise monopoly may in certain cases

also exploit fixed costs by withholding the supply of a raw material necessary to other enterprises to whom the monopoly customarily sells. But the buyers can ordinarily find some alternative to the product of the enterprise monopoly, and the loss which the deprivation imposes upon them is limited to the additional costs the less suitable purchase imposes upon the firm. There is no substitute, however, for the employees of a plant who go out on strike unless the strike can be broken.

Against all these comparisons between the two forms of monopoly in which union power seems the greater, one overwhelming advantage appears to lie with enterprise monopoly. Before establishing a price increase, enterprises do not have to win a buyer's consent; but the union must always negotiate a wage increase with a hostile employer. The enterprise's price increase is its own decision, the union's is not.

This plausible-seeming argument is actually superficial. Many enterprises can raise price only by bargaining with their buyers, as when a tire company negotiates a price on tires supplied to an automobile manufacturer. And unions often win wage increases without resistance from their employers. But more important, the union's practice of negotiating with a buyer instead of suppressing alternative sources of labor frees it from a responsibility which enterprise monopoly can neither escape nor discharge wholly successfully. the necessity of coercing alternative suppliers in order to prohibit their entry into the industry. Even the well-guarded patent monopoly is commonly obliged to wage war on potential competition.

On many points the strength of union monopoly comes down to the limited possibilities open to the buyer to substitute another service for union labor. Neither the ulti-

mate consumer of the product nor the immediate buyer of labor can adequately restrict union monopoly by refusing to purchase monopolistically priced labor or its products where labor is priced for a whole industry or in "nerve centers" which set standards for the nation as a whole. Enterprise monopoly, on the other hand, can almost always be significantly restricted when buyers turn to substitute products.

The employer's desire to substitute either nonunion workers or machinery for union labor is limited by the strike. And even in local bargaining, substitution of the product of a competing firm for that of the unionized firm may not cause a loss of employment large enough to modify wage policy. For enterprise monopoly only, the substitution of other products will, through its impact on the price $\times$ quantity calculation, result in a definite limit to price increases.

Contrast between union and enterprise aside, the power of unionism is also shown in certain of its tactics and policies, as well as by its strategic position in the economy. Here again, some consolidation of previous argument is desirable.

It is almost impossible to overemphasize the extent to which monopoly wage rates are possible because the union is in a strategic position to appropriate through wage increases the benefits of technological advance. The union's policy is to do just that. It acknowledges management's claim to a share of the benefits, but the consumer is neglected.

Where a cost-reducing innovation is brought into an industry, either price reductions or wage increases will serve to distribute its benefits to a group larger than the

managers or stockholders. Vigorous competition among firms in the industry would ordinarily result in price reduction in the absence of a union, although it would also slowly raise wage rates throughout the economy for any kinds of labor whose productivity was increased by the innovation regardless of where the workers were employed. Where a union has power in the industry, it is strategically situated to cut off the benefits to consumers by insisting on wage increases on an industry-wide basis instead of price decreases. No organized pressure insists upon the latter. Nor will competition among firms enforce price reduction if the union first raises costs through its wage increases. Furthermore, benefits are limited to workers in the union's jurisdiction and are not diffused throughout the economy. An easier source of monopoly gain is hard to imagine.

Similarly, the possibility of winning large wage gains in periods of business expansion has been mentioned in an earlier chapter. The opportunities for monopoly in such circumstances are impressive—and all the more so when coupled with successful resistance to wage cuts in depression. Generalized, this means that the union is well adapted to take advantage of economic change. It is flexible and aggressive. It can be the most insistently demanding monopoly that we know.

Monopoly of labor as a basic resource is more disruptive of the competitive order than monopoly of a consumer good or of a specialized factor of production. Add the fact that some of the chief centers of union strength are in those industries which constitute our largest outlets for new investment—steel and automobiles, for example, or the building trades—and the seriousness of union monopoly becomes more impressive.

Then, too, because unionism establishes monopoly control over a basic resource, it often becomes the foundation of new enterprise monopoly in the product market. Industry-wide wage policy as a device for stabilizing wages and costs has been shown to provide a framework of collusive agreement among enterprise monopolists. Organized associations are less common than more informal stabilization ventures, but both demonstrate the debt of enterprise monopoly to union power.

Of unquestionable importance is the general moral or ethical approbation which is accorded unionism. It is perhaps the only kind of monopoly approved of in principle, largely without regard to its consequences, although particular policies and practices occasion special praise or condemnation. Of course, unionism can be approved of in principle and be at the same time a monopoly without being commonly recognized as one. No doubt much of the sanction given to it rests on the conviction that it is not monopolistic, as well as upon a confused moral principle. It is held that since labor is not a commodity, the union can never be a monopoly. In any case, the widespread support of unionism in principle is a great source of union strength, whether that support is embodied in law which permits union monopoly to operate or whether it contributes directly to the outcome of a strike.

In addition, moral sanction is given specifically to high wage rates, though not without exception. The public at large apparently subscribes more to the union doctrine of wages-as-income than to the competitive doctrine of wages-as-cost. The hue and cry raised against high commodity monopoly prices is applied to monopoly wages only in the instance of the more dramatic high hourly rates of certain crafts. It is rarely turned against the wage rates

of industrial unionism. Admittedly, it is somewhat early to speak on this particular point. The great mass of union workers in the United States have hardly had time with their new-found organizational strength to win monopolistic wage rates, and public opinion may change as wage rates rise.

But of the various external sources of union strength, none compares with government. The success of unionism is bound up with a vast number of policies: those which restrain or interfere with the rigor of competition, those which directly regulate or protect unions, those which establish minimum wage rates in industry and wage standards in public employment, those which directly affect workers' incomes through social security and relief, and those providing mediation and arbitration of disputes.

The development of union power has been obstructed by government, it is true, but it has also been both tolerated and encouraged by government, and all at the same time. Whether unionism continues as an important monopoly power in the economy depends upon public policy, to be discussed in later chapters. It need only be said here that the central role played by government in recent wage movements, in the negotiation of wage rates in coal, steel, and autos in 1946, for example, applies no corrective to the monopolistic tendencies of unions. That is a necessary answer to those who believe that government participation brings with it a fundamentally different process of wage determination.

Government enters these disputes with the consequences which are to be expected from mediation and arbitration. Government representatives do not pretend to do more than find a basis for a settlement which will end the dispute at hand. Aside from the war period, govern-

ment has refused in its negotiations to establish principles for wage determination other than those which were agreed upon by both parties, even where, as in coal, its participation has been long established. This is hardly a criticism of government participation, for its function has not been to alter the settlement but simply to accelerate the speed with which a settlement is reached. Disturbed by disorder and by the inconvenience to the public of a major strike, government desperately seeks a speedy settlement. If it is easier to settle at monopoly rates, government will throw its weight behind them.

Finally, let it not be forgotten that union power will inevitably be underestimated if it is thought always to show itself through increases in the rate of pay. For unionism has gained both in money rewards not affecting the basic rate and in nonmonetary remuneration. The demand for overtime pay is often a method of raising wages when it seems strategic not to make an issue of the basic rate itself. Severance pay and bonuses may also constitute objectives of monopoly policy. And medical care, recreational facilities, subsidized housing—to mention only a few of the many forms in which wage increases are taken —may significantly raise the price of labor.

In 1940 roughly 25 per cent of all organized workers received annual vacations with pay, but three years later the percentage had risen to 60 and represented almost eight million workers.[1] In the pottery industry over a period of fourteen years, with a practically stationary piece rate, workers' earnings in many cases increased 60 per cent and in some branches of the industry doubled. Rather than increasing the basic rate, the union had won these gains largely through redefining the journeyman's tasks, as, for example, by freeing him from responsibility

for the preparation of the clay.[2] It is obvious that alternatives to rate increases are far from unimportant.

If the policies of union monopoly were to be described in detail, a conceptual framework within which the wide variety of union wage policies could be fitted into categories would be needed. Since every union and every bargaining relationship is unique, such a system of categories could be made as complex, on the one hand, or rough, on the other, as required for the purposes for which research might be undertaken.[3]

Fortunately such an elaborate scheme has not been required for present purposes, where the objective is to show that the union is a powerful monopoly rather than to describe the whole variety of union policies. It has only been necessary to examine the effectiveness of the possible restraints on union power. This has now largely been accomplished.

Except for "natural" monopolies whose price-making power has come to be restricted by public utility regulation, no monopoly of an important commodity or service has matched the union in its ability to escape the limitations imposed upon it in the market. No other monopolies have achieved the coordination of power which permits the unions to administer in a fashion industry-wide and nation-wide wage movements. Enterprise monopolies have never administered coordinated price increases for industrial commodities as a whole. Nor has any other monopoly achieved such comprehensive control over a basic resource.

No monopoly except that of the commodity labor could ever reach into every corner of the economy, every industry, every occupation, every product. And hence no

other power can so effectively challenge the rules of the competitive game as unionism—ever determined to "take wages out of competition" and succeeding. Unionism is a large and growing organization with its own early successes in industry-wide and national bargaining to give it courage to step up wage demands in proportion to its new power and prestige. Unionism today has a momentum such as it has never had before.

CHAPTER XI

INFLATION AND UNEMPLOYMENT

THE first or immediate consequence of unionism's new power will be unemployment or inflation or both. Because unionism will win its great gains slowly, these consequences will appear only in the years to come. They are immediate only in contrast with the indirect disruptive results of union power, which will appear as structural changes in the economy, especially in the further extension of government authority into the market place.

But inflation is already upon us for other reasons. We are also resigned to a subsequent period of unemployment. Fearful that inflation may continue, we are fearful that it will not, that a boom will again end in bust. Whatever comes, we shall be neither surprised nor short of explanations. As a result, we shall probably fail to recognize high-wage inflation or high-wage unemployment for what they are when they appear. We shall agree that the economy is sick, but we shall not identify unionism's responsibility. Alternative explanations will be both plentiful and less disturbing.

If, aside from the influence of unionism, our economy worked like the economist's model of the perfectly competitive price system at full employment, the responsibility of unionism for any disruption of the economy could be unmistakably identified. But our economy is a very imperfect mechanism.[1] Pre-union labor markets differed markedly from rigorously competitive labor markets; and certain imperfections sometimes now at-

tributed to union practices were found in them. Arbitrary wage differentials, restriction of output, stickiness of wages—these and other characteristics of union markets were found everywhere in pre-union markets as well. Hence, the union's responsibility for what happens in the economy is not easily shown.

Even so the difficulties of identifying union responsibility for unemployment and inflation once they appear are less than the difficulties of predicting consequences before they appear. The greatest caution is required in estimating today the consequences of union power tomorrow.

It does not follow, from the fact that unionism causes unemployment and inflation, that these problems would wholly disappear if the power of unionism were broken. Unionism is not disruptive simply because it causes inflation and unemployment, for these are problems in a nonunion economy as well. Rather it is disruptive because it will cause an amount of lasting unemployment or a degree of continuing inflation which will become so serious that the competitive price system will be abandoned in the search for remedies.

Abolish unionism, and the competitive system would still be threatened. It is in fact being attacked on every side, as, for example, by the gradual extension of government regulation throughout the economy. The importance of union power is that it hastens its decline and will govern in large part the form of the new institutional arrangements which are being created to take the place of the market.

How will high wage rates cause unemployment and inflation?

Consider first the consequence of high rates won generally throughout the economy. What is the chain of cause and effect which connects broad changes in wage rates to the volume of employment and the price level?

The first approximation to the desired answer is that high wage rates make labor too expensive to hire in large quantity. Monopoly rates in the economy as a whole mean unemployment in the economy as a whole.

An immediate qualification of this answer is required for the case of monopsony—where the buyer of labor has monopoly power. If wage rates are raised in monopsonized markets from subcompetitive to competitive levels, employment may not decline. Where a union successfully fixes a union scale, the once monopsonistic employer cannot save on wage costs by limiting his hiring in order to drive the wage rate down. With a union scale established, there is no longer an advantage to him in restricting jobs—in threatening his workers with unemployment in order to depress wages. He may consequently hire more workers at the union scale than he would previously have hired.

But wage increases are obviously not restricted to monopsonized markets, nor in monopsonized markets are they limited merely to offsetting the employer's control of the wage rate and bringing wages to competitive levels. Hence the fact of monopsony does not vitiate the argument that wage increases will at some point restrict employment, it merely indicates that many wage increases, especially those gained in the first years of collective bargaining in a firm, are not monopolistic and do not restrict employment.

Still another argument challenges the validity of the simple statement that high wage rates make labor too ex-

pensive to hire. High wage rates are not necessarily high labor costs. Productivity varies for many reasons, and it may actually increase as a result of wage increases enough to hold the cost of labor constant. An outstanding source of increase in worker productivity is technological innovation. To some extent high labor costs will stimulate innovation. This is perhaps the most important of the possibilities that wage increases will be offset by increases in productivity, leaving labor costs no higher than before.

Beyond this, surprisingly large differences among enterprises in work organization, managerial efficiency, and worker productivity support the plausible argument that wage increases can be offset by gains in productivity, leaving costs unchanged. And among employers some signs are appearing of a more aggressive bargaining policy in which employers trade wage increases for union pledges toward increased output or relaxation of restrictive union rules. Undoubtedly output can be increased by improved managerial methods and by better training, organization, and morale of the work force. One would of course expect, given the long-run trend of prices in the economy, that wage rates would, even under highly competitive wage determination, show a long and never-ending rise.

Nevertheless, the new power of unionism will impose high labor costs on the economy as never before. The very fact that nonwage elements in cost vary so greatly from firm to firm indicates the difficulty of controlling them as an offset to wage increases. Much depends upon the morale of management and labor, but to say that morale varies is not to say that it can be varied deliberately and systematically as an offset to wage increases. Moreover, unions can be expected to adjust their demands to employers' capacities to meet them, which means that increases in

efficiency may simply serve as invitations to more aggressive wage demands.

In addition, unions have established their power over many of the nonwage factors which the employer might wish to adjust as offsets to wage concessions. It has already been noted that labor costs rise significantly *above* wage rates as unions win vacations with pay, improvements in working conditions, and the like. And in any case it would be naïve to believe that union wage demands are nicely adjusted to increases in efficiency. Only by repeated accident will the wage increases won through the monopoly power of unionism go hand in hand with cost-reducing improvements. Offsets to high cost can postpone but never avoid the consequences of monopoly unionism.

Yet the proposition that economy-wide wage increases will inevitably cause unemployment because they make labor too expensive remains untrue. The effect of general wage changes on workers' incomes and on spending is ignored in so simple a statement. Increased disbursements for wages will often increase the total volume of spending in the economy, either because the volume of money and credit has been expanded or because wage income is spent with a higher velocity of circulation than income in salaries, dividends, interest, rents, and profits. Whether employers pay wage raises out of increases in their bank credit or merely transfer income from one group to another within the business firm, increased spending in the economy as a whole is possible and often probable.

Consequently a general economy-wide wage movement, although it may increase labor costs, will often increase the demand for the products of industry sufficiently to maintain or even increase profit margins.

Where increased spending results from a general wage

increase and is effective in maintaining or increasing profit margins, either the volume of employment is expanded or the price level rises or both. If the economy has been operating at significantly less than full employment, an increase in spending will set in motion a process of business expansion leading to high levels of employment. If the economy has already achieved a high level of employment, an increase in spending is inflationary.

If inflationary, the process easily becomes cumulative. Unions will renew their wage demands to win again the real wage increases which the rise in prices snatched away. A round of wage increases is followed by a round of price increases, wage-induced price increases and price-induced wage increases pursue each other in a vicious circle.

A general wage rise which increases spending may therefore produce any one of three possible results. It may cause unemployment by increasing costs to a degree not offset by increases in spending. It may increase the volume of employment by increasing spending to a degree more than offsetting increases in costs. It may inflate the price level by increasing spending in a period of high employment where output cannot be significantly expanded.

But increased wage rates do not always result in increased wage disbursements and consequent increased spending. Depending upon the expectation of entrepreneurs—their anticipations of profit or loss—wage increases may lead them to reduce the number of their employees and contract output. If they expect, for example, that wage increases will compel price increases which they then believe will lead to a decline in sales, they will curtail employment. A smaller work force at higher wage rates may receive even less in the aggregate than the larger work force with the previous prevailing wage rates. As

a result, spending is not increased; and whether disbursements not paid to wage earners are held in profits or paid out either in dividends or in other nonwage shares of income, the velocity of circulation of money may be decreased. Spending may not even hold its own, it may actually fall off.

The effects of an economy-wide wage increase therefore include this fourth possibility, unfavorable to employment as a result both of increased cost and decreased spending.

Obviously then the conditions favorable to employment are those in which spending is increased as a result of the wage-rate increase throughout the economy. Since, then, the effects of wages-as-cost are opposed by the effects of wages-as-income, the wage rate for full employment must be neither too high as cost nor too low as income. A balance is required Wages-as-income must be high enough to maintain full employment but not so high as to lead to inflationary spending once full employment is approached.

Where delicate balance is required, the powerful union movement of today is anything but a stabilizer. It pushes for wage increases without regard for the delicacy of the adjustments required between wages-as-cost and wages-as-income and between stable and inflationary spending. No check or limit on this new power comes to bear when unionism begins to upset the balance. And of course unions cannot be expected to know at what levels balance is reached. No warnings are sounded, even the economist, for all his analytical tools and statistical techniques, cannot accurately identify the critical levels in a specific situation.

In the absence of unionism, the economy has no stabi-

lizer either. Historically, failures to balance have probably been deflationary. Wages-as-income have probably been inadequate for spending rather than inflationary where they have departed from those levels consistent with stability at full employment. Just how important deficiencies in wages-as-income have been in causing or prolonging depression is subject to much debate. But trivial or great, the deficiencies have not been like those to be expected from wage determination in the future.

For the future, the most favorable result to be expected from the upward pressure on wage rates by the new power of unionism is the expansion of spending to set in motion a chronic inflation, for the only alternative is unemployment from increasing wage costs which are not offset by increased spending. Only by multiplied coincidence will union wage gains stay within the range of wage rates which balance wages-as-cost with wages-as-income, and at the same time avoid inflationary spending.

To the extent that wages-as-income are inadequate, as, for example, in the trough of the business cycle when spending is low, unionism may offer a remedy. But union demands do not stop at the point at which wages cease to be deflationary, nor is union power any longer limited at such a point. Hence unionism may actually smooth the business cycle by maintaining wage rates and spending during the depression while at the same time producing chronic tendencies toward inflation or unemployment. Unionism equips the economic structure with storm sash while removing its foundations.

For many reasons which have been explained in previous chapters, the appearance of unemployment will not itself effectively check union policy. But since inflation robs workers of much of their wage gains, hope is fre-

quently expressed that unions will see the futility of general wage movements which lead to general price increases. Whether union policy will in the future come to reflect such a judgment will be discussed in a later chapter. It does not do so at the present time, as the chapter on union wage aims has shown.

Because wages are only part of cost and price, increases in price do not eat up all of a wage gain. Moreover, any one union will ordinarily measure its gain by the increase in its money wage, since it can disregard the small effect of its own wage increase on the price level in general. And even if a wage increase, in meat packing, for example, shows up immediately in a price increase for meat and its by-products, the packinghouse worker does not therefore have to pay higher prices for all his groceries, housing, or clothing.

In sum, then, the effect of union pressure on the general level of wage rates will be to produce either inflation or unemployment. Where wage increases result in lower wage disbursements, high wage rates will reduce employment both through increases in cost and decreases in spending. Where wage-rate gains enlarge wage disbursements and spending more than enough to offset increased wage costs, spending cannot indefinitely expand without becoming inflationary.

The argument to this point can also be put in terms of the effect of wage rates upon the incentive of businessmen to invest. New investment is represented by a flow of expenditure on new plant—equipment and materials for production—expenditure which is financed by savings. If high wage rates cause unemployment, it will be due to their effects on this flow. For only with new investment

spending out of savings can the economy keep in circulation that amount of money which is over and above what consumers wish to spend on consumer goods and services. For a number of reasons, investment in new industries and products during the 'thirties was quite inadequate to support a high level of employment. The stimulus given to it by the war and by reconversion provides no assurance that in the future it will not again fall to a low level. Presumably investment would have continued to be inadequate had it not been for the opportunities which the war provided.

But whether the motives to investment remain generally strong or decline as they did in the 'thirties, unionism from now on will be an increasingly great hazard to profitable investment. Whether or not investment fails for other reasons to provide employment opportunities for those workers priced out of the market by unionism, unionism itself tends to preclude investment of the volume necessary to maintain employment at a high level.

On the credit side, high wage rates might make one contribution to investment by forcing the introduction of labor-saving techniques. It is conceivable that with wage rates in basic industries only slightly above competitive rates this kind of stimulus to investment would be sufficient to offset unemployment otherwise occasioned by the high rates. This is, however, a limited possibility, especially since evidence is lacking that high wage rates actually provide an additional stimulus to innovation. And against this possibility must be weighed the high cost of labor as an almost universal bar to investment—to say nothing of the bearing on investment of other aspects of union policy yet to be discussed.

As for the high cost of labor, it influences investment

decisions because it means both high direct labor costs in the expansion of payrolls and high costs for plant and equipment, the prices of which reflect their labor costs of production. Nor do nonunion firms escape the high costs of plant and equipment, even if they hire their own workers at less than union rates. But investment is also deterred by the unpredictability of wage costs and by the one major element of predictability in them—which is that they are constantly increasing. Moreover, the characteristic tactic of unionism—to exercise power over the employer by jeopardizing his fixed assets in a series of short-run crises—increases the risks of heavy investment.

It is not to be wondered then that the businessman hesitates in making long-term investment commitments, since the union can hold his investments hostage.

Again, the effects of wage increases upon spending are not to be ignored in appraising the influence of unionism on investment Depending upon the anticipations of entrepreneurs, high wage rates may curtail or increase wage disbursements, hence curtail or increase spending. Increased spending will of course stimulate investment if it more than offsets increases in costs. But the stimulus to investment may set in motion or continue an inflationary bidding for scarce productive resources already employed.

The possibility emerges of inflation and unemployment at the same time, for it is possible than an increase in spending will raise the price level, but not enough to persuade entrepreneurs to carry out a volume of investment necessary to provide full employment. In other words, profit margins reduced by wage increases may be re-established in part by price increases. But they may not be large enough to stimulate entrepreneurs to high levels of output.

This is perhaps the most dangerous of the possible consequences of unionism, for inflation and unemployment occurring together will present a picture of simultaneous inflation and depression confusing to public policy.

The argument that union monopoly will produce unemployment, inflation, or both combined has not assumed any one "correct" structure of wage rates. It should be obvious that wage rates which are consistent with both price stability and high levels of employment are to be found not at a point but within a range set by wages-as-cost and wages-as-income. And the range is constantly shifting, as changes in technology, consumption patterns, savings, and monetary policy influence costs and spending. Union monopoly does not prove disruptive because it crosses a fixed line Rather it upsets balance in the economy.

The union's new power pushes upward insistently on costs and works unpredictably on spending and the price level. In absolute terms its wage gains are of no consequence for the stability of the economy; but relative to the movement of productivity and prices they are of the greatest consequence. They are however no longer tied to these critical variables. Union power is therefore no longer consistent with long-run price or employment stability, despite all it may accomplish in short-run stabilization of the business cycle.

Unions affect the volume of employment and the price level through differential wage movements as well as through changes in the general level of wage rates.

It has already been mentioned that business expansion provides unions with unusual opportunities to win wage increases. When the demand for a product of a particular

industry expands, the response of firms in the industry may be either an enlarged output with little or no price increase or a higher price with little or no output increase. Under more or less competitive conditions, the former is the usual response, since competition among the competing firms in the industry continues to press price downward On the other hand, where unions press for a wage increase on an industry-wide basis, the firms in the industry all find it easy and desirable to raise prices.

The expansion of demand assures the firms that high costs can be turned into high prices without loss of sales. Sales expansion that would take place if the wage increases were not granted is given up in whole or in part, depending upon the size of the wage increase. But this concerns a firm less than an actual falling off in sales, as would be the case if price increased when demand was not growing. In many cases any expansion of output would be achieved by the entry of new firms into the industry rather than by enlarged output from existing firms, and then the existing firms have nothing at all to lose from a wage increase.

The result is that unionism is most likely to restrict output by cost and price increases in expanding industries. Yet unrestricted these industries would be the growing points of the economy, the outlets for new investment without which a high level of employment is impossible.

Similarly, technological innovation also provides unusual opportunities for wage increases. The reduction in cost from new methods can lead either to lower prices and enlarged output, on the one hand, or to higher wage rates which offset the reduction in cost, on the other. The entrepreneur often loses nothing by conceding wage increases if made on an industry-wide basis, for if he does

not pay out his increased profits in wages he will eventually pay them out in reduced prices.

As a result of this kind of union pressure, then, the expansion of output and employment through innovation is less than would otherwise take place. This has the same serious effect on employment in the economy as a whole as do wage increases in expanding industries, because innovating industries, like those with expanding demand, are growing points in the economy which provide outlets for necessary new investment.

Even if innovating industries were not critically important fields for new investment, union policy pressing hard for the benefits of innovation would adversely affect employment. Output and employment restriction in the innovating industries might easily make fact out of the old fiction that machines permanently displace men. In the absence of a union, a cost-reducing, price-reducing innovation is a saving to consumers who will as a result have unused funds with which they can buy more goods and services, thus reabsorbing displaced workers. Or a cost-reducing innovation raises profits and thus increases the spending of owners, with roughly the same result.

But if the innovation raises wage rates and neither lowers price nor increases profit, expansion will not provide re-employment. The mechanism of reabsorption is disrupted. What has actually happened is roughly that the same wage bill is being paid but to a relatively smaller group of workers. Hence no group has made a saving with which to expand sales, but part of the working group has appropriated the income of another part.

The traditional view has been that these displaced workers can still be reabsorbed through downward wage adjustments somewhere in the economy. Apparently in

the past labor markets have been sufficiently competitive to accomplish these adjustments. Absolute wage reduction is usually not necessary, for reabsorption it is only necessary that wage rates rise more slowly than productivity so that labor becomes cheap enough to hire. This in turn means only that some wage rates rise less rapidly as productivity increases than would be the case if no surplus of labor existed to be reabsorbed.

National and industry-wide wage movements, however, would seem to put an end to any real possibilities of continued differential adjustment of wage rates to reabsorb technologically displaced workers. Displaced workers in the labor market will not significantly affect wage rates because they do not significantly influence union policy. There is no longer an escape from the restrictive effects of a wage policy which is vigorous in winning for the union the gains of innovation.

It is true that the effects of general wage increases won by unions may offset the restrictive effects of high wages in innovating industries. For when the effect of general increases is to enlarge the total volume of spending, there is an expansion of sales necessary to re-employ displaced workers. Under these circumstances, the consequences of differential wage gains in innovating industries are, aside from their impact on investment, no different from wage increases in general of which they are really a part. They will be inflationary or depressing, just as general wage changes themselves are, depending upon the balance between wages-as-cost and wages-as-income.

If unemployment and inflation will be the consequences of union power for the general level of activity in the economy, what are its consequences for the allocation of

resources through the pricing process—for the quantities and kinds of products available to consumers?

Under conditions of rigorous competition resources are more or less rationally allocated to various goods and services desired by consumers What this means is that in an economy based on competition the determination of costs will follow from competitive bidding for scarce resources and will therefore serve to ration relatively scarce resources and encourage the use of those relatively more plentiful. The process is imperfect; whether the allocation of resources is really "intelligent" or "rational" compared to other possible allocations is properly subject to much debate. No one can deny, however, that the allocation of resources accomplished in a competitive price system is more rational and efficient than a wholly arbitrary method.

Now the effect of unionism is to manipulate wage costs in an arbitrary manner. To be sure, from the point of view of the worker who considers his wage as income, this is not so. But viewing the wage rate as a cost of production, wage determination under unionism is indeed arbitrary, and it produces the misallocation of resources inevitably resulting from arbitrary "costing." Union wage rates reflect power in the market place and not simply the forces of rigorous competitive pricing of labor. Some industries will come under the handicap of especially high wage costs, as a result of which they cannot adequately respond to consumer demand.

The conclusion would seem to follow that union wage determination seriously misallocates resources. The fact is, of course, that nonunion labor markets are at least superficially no more "rational" in the costing and allocating of labor than union markets. For pre-union and nonunion labor markets are not the rigorously competitive markets

in which labor is "correctly" priced. Wage differentials in pre-union and nonunion markets are too numerous and large to be squared with principles of "correct" costing.

How unionism changes the allocation of resources is therefore in large part nothing more than a guess Clearly, in acting as a clearing house for information on jobs, rates of pay, and conditions of work, unionism makes a significant contribution to an improved allocation of resources. But no one can be confident that he knows on balance what the consequences of unionism are for resource allocation.

Unionism will apparently affect the allocation of resources through its narrowing of wage differentials, whether these differentials are regional, interindustry, interfirm, or for skills. It would appear inevitable that the gradual narrowing of differentials would ultimately destroy the possibility of motivating workers to move from one occupation to another by wage differentials. If so, the possibility of allocating labor resources to those productive activities in which they are needed would be lost. In this event, the economy bogs down to a low level of efficiency because resources cannot be had where they are needed, or it turns to conscript labor.

Actually, wage differentials now prevailing in labor markets are larger than necessary to allocate labor. At the same time no differential reward is effective in allocating labor unless jobs are plentiful in the high-wage industries or occupations. High wage rates are often quite ineffective as incentives, and mere job opportunities themselves, even without wage advantages, extremely persuasive. If, therefore, unionism continues to narrow wage differentials gradually and indefinitely, it may never obstruct resource allocation on this account. Granted that a limit exists

somewhere to the degree to which differentials can be narrowed, it does not appear that unionism will approach that limit very closely unless long after it has already disrupted the economy through inflation or unemployment.

But unquestionably unionism misallocates resources when it cuts off the growth of expanding industries. Pressing high wage rates on expanding industries curtails output below that desired by consumers. And the same is true for union policy which seeks to claim the benefits of cost-reducing innovations. The effect on resource allocation is to reduce the output of the innovating industry relative to the output desired by consumers, for these industries, like the expanding industries, are put under a special handicap of high wage costs. They cannot respond to consumer demand as easily as other industries.

The major immediate consequences of unionism are, then, inflation and unemployment. But these are the consequences of high wage rates alone, and discussion of them does not disclose the consequences of unionism for the structure of the economy. The union is disruptive in more ways than one. It has undertaken a second line of attack on the competitive system which must be appraised before a final judgment as to the consequences of unionism can be drawn up.

CHAPTER XII

MANAGEMENT'S SHRINKING DOMAIN

TO RECONCILE some of the disturbing conflicts between unions and employers anticipated in the immediate postwar months, the President in 1945 convened a National Labor-Management Conference. It was hopelessly split on a number of important issues, of which one was managerial prerogatives.

The labor members of one of the committees of the Conference reported: "The function and responsibilities of management must be preserved if business and industry is to be efficient, progressive, and provide more good jobs." But the labor members would not be specific. On the contrary, in the words of a management representative.

> Labor wouldn't even agree to an effort to define the functions of management, although we made a real effort to get that issue settled. We drew up a list of some thirty-odd specific acts, such as the determination of prices, accounting procedure, and so forth, which it seemed clear to us must be reserved to management. Labor refused to accept a single one, and we were told officially by one of the labor delegates that the reason they had refused was that at some future time labor may want to bring any one of these functions into the realm of collective bargaining.[1]

It appears that unionism's challenge to the competitive price system lies not only in its control of wage rates. Unions are also undermining the system by undercutting managerial authority, by changing the rules of control which are necessary to its survival.

Philip Murray has declared: "To relieve the boss or the management of proper responsibility for making a success of the enterprise is about the last thing any group of employees—organized or unorganized—would consider workable or even desirable." [2] The statement is typical of union leadership.

Union constitutions and contracts often specifically guarantee the prerogatives of management, as for example in the steel agreements: "The management of the work and the direction of the working forces . . . is vested exclusively in the Corporation." An agreement signed in 1945 by William Green for the AFL, Philip Murray for the CIO, and Eric Johnston for the United States Chamber of Commerce, contained one provision constituting a pledge by organized labor to respect the prerogatives of management.

But none of this is convincing. Murray also calls for "a wider opportunity for participation of union employee representatives in matters of plant and business management, as well as in industry and economics." [3] And at the same time that he signed the agreement with Johnston and Green he published proposals for postwar "Industry Councils," composed of representatives of management, labor, and government, to provide permanently, with the aid of a similar "National Production Council," for overall national and industry production programs! [4]

Another prominent spokesman for organized labor has recently written: "A constructive plant program must be built upon the fullest scope for collective bargaining and recognition of the need of union-management relations on all phases of the enterprise." [5] Still another has said "We are always trying to encroach on the managerial preroga-

tive . . . We don't know what those prerogatives are. They change from year to year."

Now it is obvious, quite without regard to what union leaders say, that unions do not believe the rights of management to be unlimited. The most elementary aims of unions may require, to choose an example, techniques of job protection which force the employer to surrender some of his control over hiring and firing. The recognized prerogatives of unions are likewise in conflict on many other points with those of management. Thus many of the explicit contractual provisions emphasizing the inviolability of the prerogatives of management will have been inserted only at management's insistence and will represent no more than a principle which management seeks to guard against increasing attack.

To be sure, the possibility is not great that unions will seek to control the administration of functions *agreed* to be managerial prerogatives. Unions will redefine rather than invade management's domain. A union willing to operate on the "principle" that management has exclusive jurisdiction over technical organization may, in an effort to protect the jobs of its members, seek to participate in every significant decision affecting technical organization.

The extent of encroachment is easily underestimated, for frequently the real objective in collective bargaining is disguised, and more than superficial examination is necessary to determine whether a managerial prerogative is being attacked. Bargaining on overtime rates often aims at wage increases, yet it may also seek to control the number of shifts or to limit the hours of the working day. Similarly, high rates for workers on newly introduced machines will ordinarily be bargained for not to increase wages but to control the speed of introduction of the new

machine and thus protect the jobs of union members. Or a wage demand is made with the intention of dropping it if the employer offers as an alternative a concession desired by the union but on which it does not wish to bargain directly. In all cases the authority of management may be involved though the negotiation has the appearance of simple wage bargaining.

Only recently have union encroachments on managerial prerogatives been made the subject of comprehensive study.

The present extent of control and prospects for the future are summarized by Neil W. Chamberlain in *The Union Challenge to Management Control:*

> At one time or another, in one industry or another, there is scarcely a function of management which has been impervious to union penetration. . . .
>
> It is difficult to reach any conclusion but that union officials, regardless of public statements, have generally adopted a flexible and evolutionary approach to the question, with the consequence that into any statements acknowledging and accepting the existence of managerial prerogatives must be read the addendum "as of this moment" . . .
>
> We can only say that in the light of the past there is no reason to read a future in which the union's challenge to managerial authority will become less pressing, less persistent, or less successful.[6]

What is the actual extent of encroachment upon managerial prerogatives?

Traditional collective bargaining itself represents an assumption of important powers once held by management. It is easy to overlook the union's exercise of managerial authority over wages, hours, and working condi-

tions, because we have grown accustomed to union power in these areas. But the transfer of power involved in union control, say, of the wage rate is significant, aside from the importance of wage increases themselves. And the disruptive consequences of union penetration into areas of managerial authority, which will be discussed shortly, stem as much from these early assumptions of control as from more recent ones which are only more spectacular.

Unions share control over the time and frequency of wage payments, the form of payment—whether partially in scrip or special services, such as medical and recreational facilities, and the basis of payment—whether time or piece. The growth of union control is recorded, for example, in a long history of controversy over piecework and successful union control over its use.

Unions assume authority in the regulation of working hours. Union policies designed to gain leisure time for workers may for example include vacations with pay and outright prohibition of night shifts, overtime, Sunday work, and split shifts. And besides the question as to when work is to be done there is that of how much is to be done by each employee. An example of union authority on this point is negotiation in the automobile industry over the speed of the conveyor belt.[7]

Collective bargaining over conditions of work means that in practice the union assumes considerable responsibility for and control over safety rules and devices, plant sanitation and hygiene, and the general comfort of workers.

Union participation in the disciplinary function of management is more widespread and intensive than is commonly supposed. In the first place, the development of grievance machinery to handle penalties for infraction of

plant rules and to protect the worker from discrimination represents a concession of authority to unions. The increasing number of contracts providing for arbitration by a third party in grievance cases makes it obvious that management has surrendered much of its power to make and enforce disciplinary rules. Secondly, although management claims the right to set the standard and formulate the rule, cases are numerous in which even these powers have been in part surrendered to the union.

The motion-picture projectionists, for example, have assumed almost exclusive responsibility for discipline by requiring that the union rather than the employee receive the employer's complaints of unsatisfactory work, and by banning the employer from the projectionist's booth. Union control over the active administration of shop rules and their enforcement may go even further, as in the case of the International Typographical Union, whose members control their own foremen, who are themselves members of the union.[8] Likewise, nearly all unions in the building trades require foremen to be union members and subject to union control.[9]

Again power has been surrendered with regard to the selection of workers. Both the union shop and the closed shop are common in industry, the union shop allowing the employer freedom in hiring and the closed shop restricting hiring to union members. The latter throws upon unions the responsibility for finding suitable workers and for allocating work opportunities among workers. The closed shop has long been sought after and has been won by a great number of unions. Industrial unions, however, have frequently chosen the union shop in preference, which suggests that they may not always wish to assume the heavy responsibilities involved.

The growth of union control over promotion through seniority systems also represents an assumption of managerial responsibilities, the significance of which is evidenced by the frequency and vigor with which employers object to seniority on the ground that it decreases efficiency.

Where craft jurisdictions are involved, still further decisions as to the selection of workers become subject to union control. These powers may be of great importance in limiting management, as in the following cases cited by Sumner H. Slichter:

> Some locals of the plumbers' union require that distribution of plumbing materials above the first floor shall be made by union plumbers. Structural steel workers require that steel be brought from the unloading point to the building site by their members and that reinforced steel for concrete be placed by them, though laborers could do the work. Bricklayers demand that only bricklayers wash down and point brick. The carpenters in many cities demand that stripping forms from concrete be done by their members Rule 55 in the national agreement between the United States Railroad Administration and the shopcraft unions provided that the dismantling or scrapping of engines, boilers, tanks, cars, or other machinery should be done by mechanics of the respective crafts. Decision No. 222 of the Railroad Labor Board changed the rule to permit this work to be done by "crews" under the direction of a mechanic, thus allowing the use of common or semi-skilled labor.[10]

Closely related to decisions on selection of workers are those on the distribution of work in slack times. Where these decisions involve choice between the layoff of efficient workers and a costly system of work sharing and job rotation, they may be critical. Work sharing and

seniority, the most important techniques for controlling work distribution, are found in an extremely large and growing number of union agreements.

Yet, significantly, in an analysis of 788 agreements between unions and their employers, three-fifths of a group of predepression agreements and more than one-third of a group of postdepression agreements contained no restrictions of the employers' layoff policy.[11] The omission in many cases is not due to weakness in bargaining. Frequently it is difficult to regulate layoffs without also restricting workers' freedom of movement or without jeopardizing the union by an unfair distribution of the burden of employment among members

It is one thing to decide how to divide job opportunities when work is short and another to decide the total amount of work to be offered. Clearly the latter involves fundamental entrepreneurial policies more than the former, even though the decision to maintain payrolls is not always a decision to maintain output. One device for effecting a measure of union control is the requirement that the employer pay dismissal wages to discharged workers. Over 95 per cent of the CIO newspaper guilds have severance pay; and it is frequently found elsewhere, as in the telegraph and telephone industries, the electrical machinery industry, railroads, and textiles.[12] It is evidently growing in importance.

In other cases union control is more direct and more prohibitive For example, the Chicago International Ladies' Garment Workers' Union, by declaring discharges to be an unfriendly act, once undertook to prevent employers from reorganizing their production by discharging part of their labor force. The union's power is indicated by the fact that the issue was submitted to

arbitration. Furthermore, although the arbitrator permitted the discharge of 10 per cent of the labor force in any firm once a year, the employers did not dare take advantage of the decision.[13]

Union control over reduction in the number of jobs offered goes further in railroads than in any other industry. Aided by the Railroad Adjustment Board, the railroad unions have been able to establish property rights in jobs to a remarkable degree. In effect the Board has decided that a railroad yard once established can be abandoned only with the consent of the union.[14]

Viewing traditional collective bargaining not in terms of its results in wages, hours, and working conditions but as a process of extending union power into areas formerly reserved for management, one cannot avoid being impressed by the reorganization of authority accomplished. This, however, is only half the story. Union power today is being extended into new areas of managerial authority—even to price and production policies of the business firm. These new powers seem more obviously revolutionary, yet their real significance is not at all obvious. But like the encroachments already listed, they need to be described first and appraised later.

The actual degree of union penetration into these newly invaded fields of managerial authority remained largely unexplored by students of the labor movement until Chamberlain's work appeared. His evidence on specific practices is from automobiles, steel, rubber, electrical equipment, meat packing, and public utilities. In other industries further evidence is available.

Chamberlain finds a union challenge to managerial authority in varying degree in every area of control. finance,

personnel, production, distribution, and coordinate activities. The last of these includes organizational structure, line of products, price policy, selection of key personnel, location of plants, and all other decisions in which successful management requires integrated action affecting a number of areas of authority.

Finance has perhaps been least affected by union power. Chamberlain believes that "unions have not actively sought the right of joint determination of financial matters except in isolated cases" and "they are not now preparing any planned or concerted attempt at penetrating this category." But on the other hand, "the logic of their position is drawing them in that direction." For wage bargaining cannot escape concern for the size of profits, and bargaining over profits arouses the union's interest in methods of raising capital and the size of dividends, as well as in policy on reserves, depreciation, and amortization.

In industries other than the six examined by Chamberlain unionism has occasionally challenged managerial authority on finance. The photoengravers have been influential in establishing standardized systems of cost accounting as a method of controlling product price, and accounting practices in some branches of the clothing industry are subject to a degree of union control. In the needle trades too, jobbers are frequently required by the union to assume financial liability for the payment of wages in shops to which they contract out their work.[15] The railroad unions have repeatedly made financial mismanagement an issue in wage negotiations.[16]

In procurement of materials, some of the unions in the six industries have sought to prevent the hiring of outside contracts in order to increase the employment available for their own members. In other industries union activities

in the product market, as in the building trades, have restricted the use of nonunion materials and hiring of out-of-town workers. These practices were summarized in an earlier chapter.

Union power has penetrated deeply into the control of production. Through control over the introduction of innovations, restriction of performance of work outside the employee's regular job classification, limitation on production work by supervisory employees and production quotas, unions have achieved, Chamberlain reports, a degree of control which has made a real issue of what constitutes a fair day's work. As a result, this specific issue is now being made subject to bargaining.

In other industries in which management is weaker than in the six studied by Chamberlain, union control over production has gone further. In 1941 the New York dress industry concluded an agreement with the International Ladies' Garment Workers' Union making employer inefficiency a contract violation subject to fine. The union in this case has been effective in insisting on certain standards of equipment and work organization and in maintaining joint consultation on efficiency problems.

Where definition of the amount of work to be done involves specifying the responsibility of management for maintenance of equipment and supplies, proper routing of work, and details of assignment of helpers to different workers, these become important issues, especially if piecework is involved. One example alone will show how far union assumption of managerial authority on this point may go.

In the coal mines management and union share control over specifications of the mesh in screens used to grade coal; construction and condition of the mine cars; main-

tenance of mine machinery, replacement of damaged equipment, laying of switches, delivery of cars for loading, supply to the miner of explosives, timber, ties for track laying, and tools, order of work; distribution of miners among favorable and less favorable locations in the mines, equipment for coping with natural conditions, that is, for removal of rocks, slate, and clay, testing of scales, methods of weighing, and methods of accounting for the earnings of the miners.[17]

In the distribution and marketing of the product union interest is high. Chamberlain reports that in automobiles, steel, and meat packing "union leaders have expressed deep interest in regularizing the flow of products to the market," although "there has been little attempt to convert such an interest into a positive program." Again, in other industries, especially those in which management is weak, union programs to manipulate the market, summarized in an earlier chapter, have resulted in union power being extended to marketing and distribution, as in price-maintenance agreements.

In control over coordinate activities union power is growing, although it has not yet been extended significantly into some of the specific areas in this general category. With respect to organizational structure, union programs for organization—and sometimes control—of foremen are indicative both of union aim and accomplishment. With respect to line of products, location of plant, and research and development, no planned programs have supplemented occasional proposals, which themselves have been withdrawn when rebuffed by management. "At the same time," says Chamberlain, "there is no indication that such reception has resulted in their losing interest in these fields, or in renouncing future action when

deemed desirable for the protection or advancement of their members."

The public utilities unions, he reports, have shown a sustained interest in price policy and have given effect to it in pressure upon the regulatory commissions. The United Automobile Workers have sought, as in their General Motors strike, a voice in price policy. And the Steelworkers' attempts to use their strike power and their political power to influence the price of steel have already been noted in an earlier chapter.

Finally, Chamberlain concludes, "while unions, by and large, have not shared in legal management's choice of key officials, they have shared in the process of electing key officials [the union leader] whose actions are part and parcel of the operations of the enterprise. . . . In a sense, recognition of this fact provides a summation of the discussion of [union penetration into areas of managerial authority]."

One view of the growth of union power sees in it the emergence of liberty for the worker and power being made responsible to him. Another view sees it as having disruptive consequences for an economy that is based upon delegation of the entrepreneurial function to a specialized management group sensitive to motivations to which union leaders do not wish to respond. The consequences of union control now call for examination.

CHAPTER XIII

THE UNION AS ENTREPRENEUR

THE union's challenge to management control has not yet developed to a point at which its consequences are obvious. These are largely for the future and must therefore be guessed or predicted rather than observed. Although they are not distant, they are perhaps somewhat more removed than the first great disruptive consequences of union wage policy itself.

It is not at all surprising that the union's challenge to established authority in the competitive price system should follow its attack on the method of pricing labor—that the union should disorganize authority after having first gained control of the wage rate. Strictly speaking, of course, the two attacks are inseparable since the union cannot control the wage rate without challenging managerial authority with respect to the wage decision. But the more comprehensive attack on managerial prerogatives which subjects price and production policies to union power required that the union first test its ability to negotiate the wage rate itself.

As Chamberlain has observed, "the primary mechanism by which unions may share managerial authority in the corporation is collective bargaining . . . supported by the power to strike." The challenge to authority has had to wait for the development of union power in bargaining and the strike. And it is only in the last few years that unionism, through growth in membership and coordination of policy, has achieved the strength necessary to push its wage demands successfully.

Furthermore, because the pursuit of comprehensive au-

thority in business policy is part of a pragmatic process of problem solving rather than an expression of an ideological or doctrinal commitment, it has been taken up only as the limitations of ordinary wage bargaining have been revealed through experience. In large part the desire to control price and production policies, for example, stems from a desire to make more effective the union's control of the wage rate. Hence, the greatest union challenges to managerial authority will develop only after the union has gone far in direct control over wages.

For many unions the desirability of extending union control over managerial decisions arises from a practical situation in which the success of a wage negotiation is clearly and sharply seen to hinge on the financial condition of the company. Here the wage issue becomes a price policy issue, and the union begins to insist first on knowledge of company practices and second on a voice in their determination.

Chamberlain reports a bargaining conference in the glass industry which shows how the interest in managerial decisions arises out of the wage negotiations.

> Union official: We asked for facts and the manufacturers asked for facts. Some manufacturers gave us facts and others did not. What were your earnings, payroll or profits for the first six months?
>
> Company official: We just about broke even. I don't think it is your business as to what our profits are. I believe you are all wrong.
>
> Union official We are not wrong. . . . Your company has done very well in the years you have been in business. We are not willing to accept idle statements as a basis for legislation on wages. We insist on knowing about your business before we reduce wages.[1]

Although the consequences of the union challenge to managerial authority lie more in the future than in the past and in a less immediate future than the consequences of high wage rates, the challenge itself is being insistently pressed today. Hence, it would be understating the strength and persistence of union encroachments on managerial control to neglect their other major motivations which spring from deep dissatisfactions with the worker's condition in industry.

The quest for power is a quest for security. Security for the employee is, of course, bound up with his wage rate. Beyond this, it is also bound up with personnel policy. A drive toward union power is therefore motivated by the worker's desire to control discipline, promotion, and layoff. More generally, the desire for security will stimulate the worker's concern to establish a large measure of control over his status, functions, and privileges in industry. The drive for union power thus becomes enlarged to a general insistence on responsible employer government in industry.

The union challenge to managerial authority also stems from the desire for recognition and self-expression, behind which is a sense of frustrated power. And beyond this, "there is at root an idealist, reformist urge. The unions' concepts are predominantly in terms of welfare rather than efficiency."

Even these motives do not adequately explain the strength and persistency of union demands for control. For the union itself develops needs of its own which cannot be explained wholly in terms of its members' needs for security, authority, and self-expression.

"A union is stamped as effective only to the extent it can make good on its promises. It retains its vitality only

to the extent it remains effective. The necessity of survival and growth lead to the marshaling of the strength of the membership around a campaign involving both immediate and long-run objectives. When one is achieved, another must take its place. To retain its power, the union must constantly strive to increase it. Power unused means a dropping away of membership, stagnation, and possible disintegration. Power when used builds upon itself. The external politics of their situation thus provide a compulsion to the union to extend the range and the depth of their authority within the corporation and the economy."

These are the motives which a student of union power has found operative. They are consistent with what is known from other sources regarding the ambitions and goals of unionism. They reduce in large part to what is commonly recognized in union circles to be the desire for industrial democracy, a desire which is strong, deeply felt, and capable of generating enormous energy. The union's challenge to management control is, therefore, a strong, enduring, and growing threat to existing power, and the struggle for democracy is often revolutionary.

Union encroachments upon management become disruptive because they disorganize or distort the exercise of the entrepreneurial function in a competitive price system, with certain very definite consequences.

In a competitive price system, consumers establish at least a crude form of control over the use of the economy's resources by their purchases, upon which all businesses depend for survival. Production is therefore subordinated to consumption rather than the reverse. A critical instru-

ment of this subordination is the control of production by price-cost calculations.

Like every complicated social structure, the competitive price system requires an intricate division of labor. One aspect of this is the specialization of the function of "government" in the system—over-all coordination, control, or policy making. Whatever the term, some specialized group must be given responsibility for coordinating the factors of production, allocating these factors to those lines of production which consumer choices indicate, and in general giving effect to consumer choice by the subordination of production to it. This is the enterpreneurial group.

The cost-price relationship provides an objective and practical test of success or failure in the performance of entrepreneurship. What is more, under the legal institutions of the competitive price system the cost-price calculation becomes a method of enforcing responsibility of the entrepreneurial group to the consumer citizenry, for in a competitive price system only the entrepreneur who produces where price covers cost can continue in his function Otherwise he goes broke.

The union's challenge to managerial authority is an expression of its dissatisfaction with the performance of the entrepreneurs. In large part the protest is against the inevitable irresponsibility of entrepreneurship, since power is never perfectly controlled in society. But in large part too the protest is actually unknowingly directed against the domination of the entrepreneur by the consumer.

The effectiveness of the consumers' control over an entrepreneur depends on their ability to buy from a com-

peting firm if he does not give them what they want. If, then, an entrepreneur is forced by competitive pressure to discharge workers in favor of a labor-saving, cost-reducing innovation despite the catastrophe which his decision represents to his employees, their real complaint is not against his irresponsibility but against his responsibility to consumers.

In a case such as this, the worker is in effect objecting to the control of production by a cost-price calculation and is demanding as an alternative some effective representation of what he would call human rather than dollar values. He is also taking the position that the rights and welfare of producer groups are sufficiently important to justify some adjustment of consumption to production rather than exclusive adjustment in the other direction which he believes the price system requires.

The union desire to extend its authority into areas of management is therefore an attempt to make entrepreneurial decisions respond to values other than those customary in a price system. It is an attempt to make entrepreneurship responsible to a different constituency than in a price system—to employees as well as customers.

A case in point is "featherbedding" in the railroads. In these various practices which protect the rights of employees to particular jobs, the union has successfully asserted that a worker's right to be paid for producing a particular service is superior to the consumer's right to dispense with the service if a less costly alternative can be found. It has in general made effective in these practices a responsibility of railroad entrepreneurship to its employees which goes far beyond that established in most other industries and which takes precedence in many cases over responsibility to the consumer public.

If it can be successfully exercised, union entrepreneurial policy consequently represents a drastic change—a reversal of direction—in the economizing process because it seeks to assert producer interest over consumer interest. In itself and without further regard for its ultimate consequences, union power over entrepreneurship in a price system is revolutionary.

Union power actually works out somewhat differently from what might be expected. The union may seek entrepreneurial authority in order to change the direction of policy, but once power is won its exercise is often regulated by the same pressures which enforce the responsibility of traditional entrepreneurship to the consumer. The union may meet an impasse in the form of competition between firms. Entrepreneurial policy, whether in the hands of the union or not, must satisfy the consumer rather than the worker if the firm is to survive. The union, for example, cannot continue production with obsolete methods in order to protect the jobs of its members, for high costs will undercut the firm's ability to compete successfully with other firms whose methods are modern.

The cost-price calculation forces on the union itself what the union wishes to destroy. The union cannot insist on pensions for employees because their costs become prohibitive in the face of competition from other firms. Nor can it maintain output in the face of declining demand for the product simply because it believes that workers ought to hold their jobs even if consumers do not wish their products; it cannot force consumers to pay the necessary price for the product.

To be sure, union control could insist on workers' rights and on the subordination of consumption to production for short periods of time until the firm was

brought to ruin. But this possibility brings only a short-lived gain.

The result is that unionism's challenge to managerial authority paradoxically becomes more rather than less disruptive, because the union is forced to turn to the destruction of the competitive controls which frustrate its immediate accomplishments within the firm.

If, for example, the competitive position of a firm is damaged by the high costs of an annual wage, the union program calls for the concession on an industry-wide basis which will impose an equal cost upon all competitors. If competitive pressures make production planning in a steel firm impossible, so that wages and jobs are both insecure, the union program calls for organization of the industry on a noncompetitive basis—perhaps through a cartel unrestricted by competitive pressures within the industry. If "cutthroat competition" in bituminous coal prevents the miner's successfully exercising his share of entrepreneurial authority in regard to wage standards and working and safety conditions, the union program may call for the imposition of government price and output controls which free the industry from the consumer's insistent pressure.

Thus out of the conflict between union aims and the traditional exercise of the entrepreneurial function, and out of the extension of union power to break down the scheme which confines entrepreneurial decisions within a competitive framework, emerges a pattern of control which is not consistent with the survival of the competitive price system.

The new pattern of control and the struggle for its indefinite extension will undermine the foundations of the competitive order in certain specific ways.

First, the new controls will be designed to alter the direction of entrepreneurial policy to a degree which will significantly change the purposes and accomplishments of the economy. Consumers will decreasingly control the direction of entrepreneurial policy, and consumption will become increasingly surbordinated to production. We shall consume in order to use labor rather than labor in order to consume.

Second, the mere fact of union power itself will alter the behavior of the economy in diverse ways which cannot now be predicted. Union authority in management brings new motives, attitudes, and goals into the formation of policy, and the most important details of the new policy —aside from its interest in the producer rather than the consumer—are still obscured. We know only that a new and different kind of authority will grow in importance in the economy.

Third, traditional management will increasingly be forced to turn its attention to the struggle for power and away from the efficient production of goods and services. As Chamberlain says, these developments have "created a problem of organizational stability. The operation of most large corporations depends upon agreement between management and union. In the absence of such agreement, the corporation of stockholders with their managerial representatives, and the union of employees, become functionally meaningless and impotent."

Fourth, investment will be crippled. Traditional entrepreneurship will continue to be called upon to provide new plant, new business, and new products. But investment can hardly be undertaken in the uncertainty of growing union power and the direction of that power toward anticompetitive goals. As one manager put it, "We

worked for years to eliminate chance in our operations—now here it comes back in a big way. A new and unpredictable element has been injected into our business." In some cases the issue will be extremely simple: private investors will refuse to put their holdings into the hands of an organized power lacking responsibility to those from whom funds are obtained.

Fifth, the disorganization of competitive restraints on managerial authority will further strengthen union wage monopoly with its own disruptive consequences.

Sixth and last, the extension of union power coupled with union wage monopoly will together establish the syndicalism in many industries which several earlier passages in this book have hinted at. This is a challenge to the survival of competition which has already much altered a few of our major industries. It is the outcome not only of the union drive for power and high wages but of management's desire to find a practicable compromise and of the government's desire to keep the peace. Syndicalism is all the more important because, although it is a practice, it is also a theory. It is often advocated under a variety of other names as the formal pattern of comprehensive union control. It is therefore occasionally advocated as the mechanism of *deliberate* transformation of the economy to a new structure. Syndicalism calls for special attention, because it is the pattern of tomorrow's economy.

CHAPTER XIV

SYNDICALISM: PLAN AND CONSEQUENCE

THE labor movement in the United States is not consciously socialist, and even in that small segment of it which is, the syndicalist form of socialism has not taken root. Nevertheless the union movement in the United States is committing itself to what is in fact a kind of syndicalism, although it is represented by its advocates, who do not use the term itself, as a conservative refinement of the competitive order or, more simply, is practiced rather than preached. In neither case do its advocates reveal an adequate appreciation of its radical implications, and perhaps the same can be said of the public at large. Whether the failure of union leadership to recognize the disruptive consequences of syndicalism is "a studied policy rather than a deeply-seated conviction" cannot confidently be decided.

"Syndicalism" is used here to describe the control and administration of an industry jointly by management and union in semi-isolation from the competitive forces through which the interests of the consumer public are otherwise protected. The development of syndicalism is a process of cartelization, the essential idea is self-government of more or less autonomous productive enterprises by producer groups.

The classical form of syndicalism, as in French socialism, calls for worker control to the exclusion of management, which unionism in the United States is hardly in a position to advocate or practice. But in either its pure or compromised form, it is a kind of anarchistic economic

organization seeking to carry on the economic processes without over-all coordination either through government or through the price system. It is disorganization of the competitive market in the name of organization of the individual industry, instability for the economy in the name of stability for the small group.

Syndicalism in the United States takes a variety of forms. Since it is never formally installed in an industry but instead gradually develops from collective bargaining, it ordinarily goes unrecognized. To describe it is merely to call attention to the logical consequences of both wage monopoly and encroachments on managerial authority.

A noteworthy manifestation of the syndicalist aims of organized labor is a group of proposals from the CIO. President Murray outlined them during the war as a basis for postwar economic organization.

(a) A NATIONAL PRODUCTION COUNCIL should be set up, properly linked with the War Production Board and other war agencies, which will be responsible for taking the country through reconversion and keeping it prosperous. It should be composed of representatives of labor, industry, agriculture and government.

(b) INDUSTRY COUNCILS should be established in the great basic and mass production industries, composed of representatives of labor, management and government.

(c) THE NATIONAL COUNCIL and the Industry Councils should work out an *overall national program* and competent industry programs for changing over to peace-time and *operating at capacity thereafter*.[1]

Objection might be taken to the application of the syndicalist label to these plans. Murray makes much of the

protection of the public interest afforded through government participation in the Councils, and the function of his proposed National Production Council is the coordination of the Industry Councils, which presumably might not otherwise be geared properly with each other. Furthermore, he explicitly declares that "the anti-trust laws must be enforced, not relaxed. Restricted production and monopoly prices cannot be countenanced."

Notwithstanding, similar proposals from him and from other spokesmen for labor are so heavily stamped with syndicalist characteristics as to make Murray's plan suspect. Moreover, the motive behind such proposals is escape from the control held by the consumer over the industry and enforced through competition. The inclusion of government as a third party in these schemes does not necessarily demonstrate a desire for effective public control, for union leaders know that government will usually act as referee rather than as guardian of the public interest, as in coal and railroads, shortly to be discussed.

Two former officers of the United Steelworkers have written. "The formula for democratic control of a national planning effort should include the participation of organized labor as a co-equal with management, with the government acting as the arbiter between the *relatively independent* groups in a free society." [2] Still another manifestation of syndicalism was the wartime Reuther Plan for the conversion of the automobile industry into aircraft production by pooling each firm's capacity into one great production unit to be administered jointly by labor and management. This plan and others like it proposed by various unions early in the war were not desired as war measures alone but were considered by their sponsors to be desirable for peacetime organization as well.

These tendencies are limited neither to the newer unions nor to industrial unions The syndicalist aspirations of organized labor since the early days of the AFL have, as a matter of fact, been cited as a distinguishing characteristic of the movement in this country.* The 1923 Portland Manifesto of the Executive Council of the American Federation of Labor, while dealing largely in generalizations, has a distinct syndicalist bent, as is indicated in the following abridgement of the statement.

Henceforth the organization of the workers into trade unions must mean the conscious organization of one of the most vital functional elements for enlightened participation in a democracy of industry whose purpose must be the extension of freedom, *the enfranchisement of the producer as such*, the rescue of industry from chaos, profiteering and purely individual whim, including individual incapacity, and the rescue of industry also from the domination of incompetent political bodies. . . .

The functional elements in our national life must fit themselves to work out their problems, eradicate their abuses and furnish America with an ever increasing flood of commodities, both necessary and pleasure giving. Industry alone has

* Consider, for example

"The United States is fortunate in having a labor movement which, while insisting on fair wages and fair hours, holds as its program that the labor unions should collaborate with the employers and their organizations in the general conduct of industry

" 'Industry's Manifest Duty,' the American Federation of Labor manifesto of its Portland Convention, and the attitude of the United Mine Workers (of the Committee for Industrial Organization) towards a self-government of the coal industry by capital and labor jointly, show that American labor unions, generally, want collective bargaining to be what Pope Pius XI's 'Reconstructing the Social Order' wants it to be 'An approach towards the mutual cooperation of vocational groups,' i e, guilds No other country has such a labor movement" Foreword to Francis J Hass, *The American Labor Movement*, ("National Catholic Welfare Conference, Social Action Department, Social Action Series," No. 6, 1937), p. 1.

the competence and it must demonstrate that competence through organization. The organized functional elements in industry will find easy of solution those problems to which politicians now turn their attention in futility. Industry must organize to govern itself, to impose upon itself tasks and rules and to bring order into its own house. . . .

It is not the mission of industrial groups to clash and struggle against each other. Such struggles are the signs and signals of dawning comprehension, the birth pangs of an industrial order attempting through painful experience to find itself and to discover its proper functioning. The true role of industrial groups, however, is to come together, to legislate in peace, to find the way forward in collaboration, to give of their best for the satisfaction of human needs. . . .

Labor stands ready for participation in this tremendous development It has long offered conference with all its implications as a substitute for conflict, regarding the folding of arms in idleness only as the last resort in failure of negotiations, signaling the glaring fact that the industrial destinies of the country have thus far been finally in the hands of one group in the nation's industrial organization.[8]

Matthew Woll, often referred to as the "theorist" of the American Federation of Labor, wrote in 1935:

There is one logical method of planning and labor stands for that method. . . . Labor urges no visionary thing. We do not demand a sudden upheaval of our accustomed practices. We seek merely a step-by-step development in the direction which has already been taken. . . .

What is desirable and required is an industrial congress which, instead of being the beginning and ending of itself, shall be the beginning of a permanent industrial legislative structure *within industry* for industry and the whole people. . . .

Such a plan of economic balancing might well embrace the

determination of the possible annual national human requirements in commodities and service for some acceptable and agreed term of years, the immediate visible supply of required commodities, the apportioning of required labor hours for the required production and handling, to the point of consumption, of such commodities; the character and extent of industrial equipment; an effect to guide intelligently the task of its design, construction, and installation; the immediate and continuing distribution of the necessities of life among the entire population, using all resources of employment, manufacture, and credit distribution requisite to that end; and the outline of legal enactments necessary and convenient to remove obstacles and to facilitate the operations of the suggested program.[4]

Woll believes that an industrial congress would "inaugurate a democratic industrial structure comparable to our democratic political structure." Gompers believed that "a democracy of industry" and "an extension of freedom" awaited the "enfranchisement of the producer as such." Neither is willing to concede that their schemes and others like them disfranchise the consumer by restricting competition among firms without offering the consumer any alternative control over the entrepreneur. Their industrial congresses would in fact create islands of arbitrary power in the economy, and, in the absence of consumer participation, they could hardly be called democratic.

Curiously, the labor movement has lacked interest in its own formal proposals for joint control. Plans seem to begin and end with mere pronouncements. Neither the rank and file nor the leadership of organized labor pursues the announced objective of formal industry self-government with a fraction of the energy devoted to wage bargaining. No doubt the mass of organized workers are hardly aware that their leaders have espoused such programs.

But in Woll's words, "We do not demand a sudden up-

heaval of our accustomed practices. We seek merely a step-by-step development *in the direction which has already been taken.*" The fact is that the day-to-day program of unionism, composed of wage gains and gradual encroachments upon managerial authority, is slowly achieving the very syndicalization of industry which outright advocacy and agitation cannot accomplish.

The formal proposals of union leaders perhaps then represent an attempt to predict and defend the outcome of the union struggle for power. These proposals are commonly made in addresses, articles, and books in which the union movement is being defended or interpreted favorably to "outsiders." The union leader is therefore tempted to find some kind of pattern in the wide variety of union programs. He also wants to show that the various aspects of unionism add up to a plan for social betterment. Syndicalism—always by other names—represents the full flower of the reforms which the union movement is making piecemeal, the union spokesman is willing to defend joint control as an intelligent as well as inevitable objective.

In short, the actual syndicalization of industries is the result—and formal espousal of syndicalization the reflection—of day-to-day union policy. The destruction of competitive market controls is in an important sense unplanned. But the formal proposals of union leadership are the evidence that union leadership knows something of what is happening—knows that the economy is undergoing drastic structural change. Far from shrinking from the consequences of its own power, it proposes them as an ideal.

How far has syndicalism actually been carried in the United States?

Where wage making has been established on an indus-

try-wide basis, formally or otherwise, and where encroachments on managerial prerogatives have given the union power over price and production policies, so that competitive determination of wage and price policy is much weakened, syndicalism by definition is well developed. The administered or privately planned industry has supplanted the competitive.

On the basis of evidence in previous chapters, union control of the wage-making process and of managerial functions has gone so far as to constitute a radically new syndicalist organization of industry, at least in many localities, in men's clothing, women's clothing, trucking, building, coal, railroads, and a number of the service trades. And union control is fast creating syndicalist patterns of control in heavy industries such as steel and autos.

All these industries show union controls going beyond joint determination of wages and working conditions, the administration of the labor force, and the introduction and use of technological innovations. For men's and women's clothing, union control covers every aspect of managerial policy and influences the organization of the industry as a whole. In particular, the Amalgamated Clothing Workers' Stabilization Plan gives the union powerful controls over price and output. The outstanding case of syndicalism in trucking is the participation of the Seattle teamsters in a number of price maintenance associations strong enough to exercise great control over competition in a large number of Seattle industries.

The building trades provide similar examples of association programs for the elimination of competing sellers, for regulations of bids depositories, and for the administration of general business and price policies of employers, all subject to joint union-management control. An out-

standing case in the printing trades, is the photoengravers' program for restricting entry into the business, standardizing accounting procedures, and maintaining product prices. A major characteristic of syndicalism on the railroads is union control over the location of shops and yards and over consolidation. In the service trades, associations for price maintenance and for the control of competition are common.

The new pattern of power in steel and autos is observable in the necessity now imposed upon the companies of dealing with wages, prices, and production as one joint policy problem subject to union authority. Recent wage settlements in autos have in fact hinged on price policy, although the automobile companies have loudly insisted on their own exclusive responsibility for prices and upon an independent determination of wage rates through collective bargaining. Some recent negotiations in steel have been tripartite, price and wage policies being subject to negotiation involving union, management, and government

Government inevitably becomes involved in syndicalist ventures, in fact, the new structure of power leans heavily on government for support. If government participation were designed to restrain monopoly power and impose limits on union-management attempts to administer an industry like a private domain, government could bring an early end to syndicalism. But government turns out to be, as the syndicalists prefer, an "arbiter between relatively independent groups." It will thus perform an essential service for budding syndicates rather than constitute an independent power protecting the consumer.

Government takes an active part in placing power in the hands of these new agencies for cooperative monopoly

for a number of reasons. The pursuit of industrial peace leads government to encourage union-management cooperation, from which it is only a short step to syndicalism. Or government may be called upon either through union pressure or through public sentiment to enact legislation favorable to union power in management, which was actually the case when the National Labor Relations Act was passed to protect the "rights" of employees. Again, unions may successfully insist on the exercise of government power to impose equal concessions on all employers in an industry where it is dangerous or impossible to demand a concession from a single competing employer.

Government may deliberately encourage a joint union-management venture for control of an industry if it is believed that a desirable kind of industry stabilization will follow from substituting administrative controls for competitive controls. Or government may participate because it is the only party able to "foot the bill" where the new arrangement imposes financial burdens which the firms involved cannot carry from their own receipts.

The coal and railroad industries are cases in point. Labor difficulties in the coal industry following the first World War stimulated the introduction of many bills in Congress to establish regulation over the industry, some proposals seeking to curb the power of the union and others seeking directly to achieve industrial peace. During the 1920's the miners pursued various political programs designed to do away with low wages in the industry; in 1922 for example they advocated nationalization of soft coal. Eventually miners and many operators agreed on the desirability of joint action to "stabilize" the industry by controlling competitive practices, and they joined in looking to the government for assistance.

The syndicalist character of thinking on reorganization of the industry is indicated by the union program which took form at an early stage in the Watson Bill introduced into Congress in 1928 at a time when the coal operators were still largely opposed to the program. The bill proposed to establish a coal commission with power to license coal producers, offer permission to producers to establish combinations or selling pools to maintain prices, encourage collective bargaining, and provide for regulation reducing excessively high prices for coal.[5]

The coal code established under the NRA did much of what was planned in the Watson Bill. Its invalidation by the Supreme Court led to the passage in 1935 of the Bituminous Coal Conservation Act, which in turn led to the Bituminous Coal Act of 1937. The union helped draft the 1937 Act and exerted its influence in Congress in its favor.[6] The new act, which continued in effect until 1943, provided a statement of policy with respect to the right to organize and bargain collectively, and then gave consent to syndicalization by authorizing cooperative marketing agencies and empowering a Bituminous Coal Commission to determine "fair and reasonable" prices.

As for railroads, government regulation developed before the possibilities of joint union-management control over the industry became an issue. But union power is now an issue. The extent to which government has given power to the unions over the railroads is indicated by decisions of the Adjustment Board establishing property rights in jobs, by legislation requiring remuneration for workers in the event of consolidation, and by frequent support of union demands through special Congressional action, as in the passage of the Adamson Act to avert a strike over the eight-hour day.

In both cases—coal and railroads—the important fact is that government regulation is guided primarily by the immediate interests of the two parties—labor and management—rather than the interest of the consumer-public. Price setting in bituminous coal has sought to stabilize the industry by protecting miners' and companies' earnings with only secondary concern for consumers.[7] Likewise, the decisions of the National Railroad Adjustment Board with respect to job rights in case of plant relocation or consolidation—to say nothing of special legislative enactments—have safeguarded the interests of workers as a producer group with only secondary concern for the consumer.[8]

Political and economic power is largely on the side of producer rather than consumer groups. Furthermore, there are no criteria helpful in the protection of consumer interests other than the rules of the competitive price system, and these are obviously unacceptable in a plan designed as an alternative to competitive organization of the industry.

Where specific legislative provisions is made for the protection of the consumer, as in the establishment of a Consumers Counsel in coal, the Consumers Counsel will find itself fighting the very purpose of the act. Clearly the producers come first, and only after minimum benefits have been established for them does the authority in the industry permit consumer interests to influence price and output policies.

The syndicalization of the economy, because it is usually neither heralded for the future nor celebrated where it is established, goes on quietly. It is often effectively disguised, whether intentionally or not, as a more "orderly"

competition. And it may as successfully be established through industry-wide wage conferences which are in effect also price conferences as through the most elaborate restrictive rules on price, output, sharing of the market, bids and contracts, and the like. The peculiarities of each industry or occupation will dictate the form of syndicalist ventures, their early development as highly organized, detailed market controls should not blind us to their equally powerful operation through a minimum of formal organization.

One way of gaining insight into what syndicalism is doing to the economy is to view it as a political phenomenon. Syndicalism is creating "political" labor markets. In these new markets decisions are being privately reached and administered which, because they affect output and employment as they do, are as important as enactments of Congress. They are being made, however, by private legislatures of union and management representatives. Not only independent formally—and largely in fact—of our public legislatures, these legislatures are often at odds with them. This is to be expected, since they represent special groups and not the whole people over whom their decisions are of immediate and lasting importance. The enterprise itself becomes increasingly a political institution. It becomes an administrative branch of an industrial government operating under laws enacted by the private legislatures. As a political institution the enterprise is not free to respond quickly and easily to profit-and-loss calculations. It is increasingly socialized, using the term very broadly; and, to the extent that union demands may impose impossible financial burdens on the firm or industry, it may become in fact nationalized.

If the development of unionism produces unemployment or inflation, government will eventually act. What it might do will be discussed at some length in a later chapter. But some of the possibilities should be noted here.

Whatever government does, it is likely to administer the coup de grâce to the competitive order. If the economy is plagued with unemployment, perhaps it will become increasingly dependent upon public works; a distinguishing characteristic of economic life in the United States will then be that it is stood on its head. Because consumption will be undertaken to provide an excuse for job-creating production, the more reasonable subordination of production to consumption will become increasingly difficult politically. In any case what is to be produced, with what resources, and how it is to be distributed will more and more become subject to governmental decision as increasing unemployment enlarges the volume of public works.

But perhaps, on the other hand, the problems arising from conflict between unionism and competition will be attacked by encouraging further the very syndicalism from which many of the problems stem. In the coal industry a governmentally sponsored syndicalism has sought to remedy the voluntary syndicalism of the miners and operators. The experiment will no doubt be repeated in other industries. Here again the remedy will enormously enlarge the direct political control of economic life.

The great strength of government-sponsored syndicalism is that by never-ending subsidization the United States Treasury can free industry from the pressure of high wage costs which result in inflation or unemployment. Even a kind of pseudo socialism is conceivable, in which government through nationalization seeks to bail out depressed

industries and provide employment opportunities through their expansion.

These are indeed the lines of policy along which we are drifting Barring a drastic reorientation of public policy, we are headed toward the wholesale disruption of competition, if not by unemployment or inflation itself, then by the attempts of government to create by noncompetitive means the employment opportunities which private employers will not offer.

In the syndicalized economy of the future, short-run goals and values will dominate over long-run, for power in economic life will fall increasingly into the hands of private legislatures with no responsibilities for the distant future. Vested interests will be better protected than will opportunities for change and innovation, because the locus of power in an economy dominated by private legislatures is with those who can profit by maintaining the status quo against newcomers. Price will be dethroned as a guide to production, for prices will adjust to a controlled supply rather than the reverse; and we shall have to want what we eat rather than eat what we want.

The economy will draw apart into segments as vast industrial syndicates free themselves from the coordinating powers of competition and establish their islands of discretionary authority. The rights and privileges of workers pertaining to employment, promotion, and the like will come increasingly to be limited to those who are already best situated in these respects, for the labor force will be divided between those who remain within the domain of private industry and those whose earnings are drawn from public works projects created to support them.

The existence of union and enterprise as political insti-

tutions will blur the distinction between government and business, as will the increasing attention of government to the market place. If investment is undermined by the businessman's inability to identify an area of economic life in which he can freely operate, it will contribute to the further decline of private business.

The blurring of the distinction between business and government will be reflected in a comparable confusion of economics and politics. It is not unreasonable to suggest that the distinctive function of economic organization—that is, to economize, to use scarce resources in the production of maximum want satisfaction—will be lost sight of.

If these should turn out to have been extreme predictions, it will only be because the main directions of public policy may change as economic disorganization becomes more serious. This is less probable than might appear, since many other developments in the economy are pushing in the same direction as syndicalism. Quite aside from unionism, organized business and organized agriculture are making their own contributions to disorder.

CHAPTER XV

RESPONSIBLE UNIONISM

CAN nothing be done to avert these disruptive consequences of unionism? Or is there an untried capacity for self-discipline in unionism which can yet be called upon to adapt union demands to what is possible in a competitive price system?

It is often held that unionism will not persist in its pressures on wages, costs, and prices once the prospects of inflation or general unemployment become so immediate as to threaten the welfare of union members. Granted that unionism is coming to possess the great power required to produce these disruptive consequences, it is supposed that fear of the consequences will be sufficient to inhibit unionism from the full use of its strength. The argument thus suggests a paradox. If the thesis that union power will produce serious unemployment or inflation is valid, the union leader's eventual recognition of it will influence policy and make the thesis invalid.

The conditions most favorable to the encouragement of responsible unionism are the broadening and unification of the labor movement and the establishment of coordinated, centrally directed wage policy. The local union can hardly be expected to weigh heavily the slight effects of its wage policy on the general level of prices and employment, and for the many reasons given in preceding chapters it in fact does not do so. Even the national union acting alone will not through its wage policy produce consequences so certain and so serious for the economy as a whole as to cause it to restrain its policy. If there is any hope at all for self-

restraint, for mature unionism, for industrial statesmanship—whatever the term used—it will presumably be found in policy formation by union leaders who bear responsibility for the whole wage-earning population and not merely for a segment of it which is always tempted to press for gains for itself alone.

A unified movement creates a concentration of power which makes obvious to all union leadership their actual responsibility for the welfare of the economy even if they do not wish to act responsibly. And it places the leadership in a position in which it cannot risk the dangerous internal strains in the movement which would appear if a single national union were permitted to win special increases.

A clear tendency toward unification of power and coordination of policy is already apparent in follow-the-leader wage settlements and in the assumption by the CIO of responsibility for advising its affiliated internationals on wages. Yet the obstacles to unification are so great as to preclude anything but a very slow development. Rivalry for power and prestige block the path toward close cooperation on wage policy between CIO and AFL, quite aside from the question of formal unification. And even if the CIO and the AFL could achieve effective coordination of policy between themselves and with the Railway Brotherhoods, millions of workers yet unorganized cannot establish claims upon union leadership. If it is assumed that a union leadership representing all labor would not run the risk of causing inflation or unemployment, the fact remains that union leadership is at least many years and perhaps forever removed from representing so large a group.

Moreover, a movement so unified as to sacrifice

the immediate interest of occupational groups within it for the sake of the welfare of the whole contradicts the traditional notion of unionism. Unionism in industry has presumably won its strength not because it has acted in the light of broad responsibilities but because it has satisfied the worker's strong desire to press his own special demands. Other institutions can safeguard the general welfare, the union is the protector of an interest group. In the eyes of a worker his union is an instrument for remedying the inequities which burden him; it should therefore be concerned with his otherwise neglected welfare rather than with the welfare of society in general.

Thus the union has a long tradition of performing a highly useful but narrower function than that which it is called upon to perform by those who see responsibility in unification. If it is to continue to perform this valued function, it cannot afford to be unified. Its leaders will continue to insist upon a large enough degree of autonomy to permit each national to go where its strength can take it.

What are the prospects for responsible wage policy if unification of power and coordination of policy grow beyond what would now seem to be reasonable expectations? A basic difficulty is, of course, that the interests of the policy makers in the labor movement are significantly different from the interests of the public as a whole.

The broadest imaginable development of the labor movement will still leave outside the organization large numbers of salaried workers and some wage earners. Through wage increases unions can gain at the expense of these groups to whom they are not held responsible. If union policies induce inflation, the rise in prices will not

necessarily take from the worker in high prices all of what he has gained in higher money wage rates, for the white-collar worker and nonunion wage earner will in effect pay through higher prices a substantial portion of the unionist's wage increase.

If all wage earners and salary workers were to be included in a comprehensive labor organization whose leaders were genuinely responsible to all its members, high wage rates would still tax the small business proprietor, the farmer, and the *rentier*. True, higher prices would void much of the gain in wages and salaries won by the union—but not all of it.

All workers are of course consumers. But they can still gain more as workers than they lose as consumers when their wage gains are immediately translated into higher prices. For wage costs are only part of the total costs of production, and prices should not be expected to rise as much as wage rates. This is merely another way of saying that as long as large groups are outside the labor movement, union leadership will recognize the possibilities of increasing labor's share of the national product through wage increases which, though they raise prices for everyone, also enlarge labor's capacity to pay the new prices relative to other groups.

It has been shown in earlier chapters that conflicts of interest within the union may result in one group's gaining at another's expense. A policy-making majority—to say nothing of policy-making minorities—can in its own intelligent self-interest raise wages at the expense of others in the union who may lose their jobs as a result. If leadership can intelligently and democratically raise costs and prices at the expense of minorities within the union, surely

it cannot be argued that it will protect the interests of those outside.

All that is being said so far is that those who have power will use it to their own advantage. It is widely agreed that power corrupts. Less extreme is the simple axiom that power will be used for those who hold it. If unionism uses power for its own advantage, unionism is better described as intelligent rather than corrupt and as functional rather than perverse. To believe, then, that unionism uses its power in its own interests is less to attack the institution than to credit it with the minimum of intelligence that leaders and members claim for it.

It must not be inferred from the above that the union leader is not at all inhibited in the use of power. Almost everyone is to some degree inhibited in this respect by the mores of his community. Especially in a democratic society do our traditions and morality restrain us from seizing every opportunity to exploit others, as the continued survival of political democracy in the United States would seem to prove.

In a wage negotiation, the union leader does not commonly ask for the moon nor does he demand immediately all he could reasonably expect to win if he tried. He is inhibited by his desire to hold "the confidence and respect he enjoys in the assessment of the employer, as 'a fellow you can do business with.' " [1] This inhibition will somewhat retard the speed with which union power will push wage rates to dangerous levels. But that is all. For the union leader does not defer to the employer—he only proceeds more cautiously against him. He probably wins more with his "businesslike" approach than he would with an extreme or hostile tactic.

As for inhibitions which might arise from the union leader's sense of public responsibility, neither leader nor member owes all his loyalties to the union. Both are members of a larger social group and no doubt feel some moral responsibility to it. It will often be just this identification with the larger group which encourages a disruptive wage policy rather than curbs it.

For, as the earlier chapter on wage aims showed, unions do not identify the general welfare with the success of the competitive price system. Quite the contrary, union leadership believes that the general welfare conflicts with the requirements of the competitive price systems. As Philip Murray recently wrote. "I believe that the rights of people and their warm human needs take precedence over profits, even though we admit that profits are a necessary stimulus for our economy. There is no doubt in my mind as to which comes first, wages or profits." [2]

A highly principled, public-spirited, and responsible unionism with deep and honest convictions as to the priority of the common good over immediate union interests may therefore pursue wage policies which cannot do other than cause unemployment or inflation. Observers of unionism who identify responsibility with the acceptance of competitive standards do not seem to understand that their view of the public welfare is in the eyes of unionism not only narrow but also in large part mistaken.

As the consequences of union power become increasingly apparent to union leaders in the future, there is indeed a presumption that they will recognize the conflict between aggressive unionism and the competitive price system to be a challenge to the social order. But whether unionism is or is not responsible, it appears that it will sacri-

fice the competitive price system to the "warm human needs" which, the unionist will hold, cannot be satisfied without strong unionism. Seeing the conflict clearly, mature and responsible leadership may seek to solve the problem by more radical reform rather than by restraint. The union reaction to knowledge of its own power is not necessarily conservative.

For several other reasons, "responsible" unionism does not seem to provide a solution to the high-wage problem.

One difficulty is that the effects of a high-wage policy are delayed to the point where union leadership loses sight of the connection between cause and effect. Hence the disruptive consequences of unionism do not appear as consequences of union policy. As has been explained in previous chapters, no simple and direct connection relates wage-rate increase to prices or employment for the firm, the industry, or the whole economy. Wage increases do not always raise labor costs. An increase in labor costs does not always lead to the substitution of capital for labor, nor does it necessarily raise price. And price increases do not always cause restriction of output or employment. Sooner or later high wage rates will cause inflation or unemployment, but the results are slow to appear. And a consequence sufficiently deferred seems to be no consequence at all.

As a result, union policy will not be inhibited by consequences that do not materialize fast enough to implicate the union. The union will also be encouraged to rationalize—to argue that what might seem to be a predictable consequence of high-wage policy is not in fact to be expected in view of past experience. Furthermore, the union

will be encouraged, by uncertainty as to consequences of its action, to resolve any doubts on policy in favor of its own immediate interests.

Now of course neither inflation nor unemployment can be denied once it develops. The point is that neither arises in such a way as to leave obvious and convincing evidence of union responsibility. And it is always easy to find alternative explanations for general economic distress which are more palatable to unionist and nonunionist alike than the suggestion that high wage rates are responsible.

It needs also to be pointed out that union leaders cannot be responsible and statesmanlike because they cannot know what a responsible policy would be. Criteria are lacking. It has already been shown that unionism insists that wages be judged by criteria such as "decency" and "fairness." Such criteria as these relate immediately to workers' needs, and they are inevitably anticompetitive criteria simply because they place "warm human needs" above the requirements of a competitive price system. But even if unions were willing to abandon these criteria and seek to adapt union wage policy to the requirements of successful operation of a competitive price system, they cannot do so as long as it remains impossible to specify just what is required of wage policy for this purpose.

Prices have been rising steadily since the war. Whether increasing wage rates are primarily, partly, or not at all responsible for these price increases is a matter of dispute. Before the war a prolonged depression led many people to believe that rising wage rates were choking off recovery. This was and still is also a matter of dispute. How then is the union leader to know when his wage policy is excessive in terms of a common desire to avoid inflation and unemployment? If unionism has the power to cause inflation

or unemployment and will in the future do so, this still does not enable us to identify the time or place at which wage-rate movements begin to produce these consequences.

It is tempting to believe that the problem of high wages will be solved by the self-restraint of the "new" leadership in unionism. Walter Reuther's methods are not those of John Lewis. One talks the language of industrial statesmanship, the other that of the special pleader. One accepts a public responsibility which the other denies.

No doubt this "new" leadership, of which Walter Reuther is an outstanding example, is more advanced in its economic reasoning than the older leadership as a whole. It understands the consequences of high wage rates better than does the old leadership, even if the latter itself is growing in economic sophistication. To this it can probably be added that it is also more willing to compromise immediate union demands in the public interest, perhaps because it well understands that union rights are held at the forbearance of the general public.

This, however, is only one aspect of the new leadership. Another is that it may make more speed with less haste. It may be less likely than old leadership to embark upon ill-considered programs for short-run gains, in any case, through its superior understanding of things economic, it is able to pursue long-run wage gains with persistence and skill. Through a high-wage policy that could not be enforced, John Lewis brought his union to the brink of dissolution in the late 1920's, to be saved only by the New Deal; it does not now seem that the newer leadership would be so foolhardy. The new leadership is therefore less and more demanding at the same time, more moderate and more radical. It appears to be wise enough

to try to win only what it can maintain and, so doing, asks for less and gains more.

Moreover, employers complain that it is harder to get along with these new young statesmen of the labor movement than with the older leadership. The desire to win the employer's respect inhibits the new leadership less than it did the old And the new leadership has ideas of its own on wages, prices, and profits which challenge the accustomed ways of settling disputes. What might formerly have been compromised as a mere dispute over interests—a difference of opinion—is now bitterly fought by the new leadership as a question of principle. This is well illustrated in the great United Automobile Workers–General Motors dispute of 1946, where a wage dispute turned on the principle of ability to pay and eventually was fought as an issue of managerial prerogatives.

Perhaps the essence of the difference between new and old union leadership is therefore in the relative radicalism of the one and the conservatism of the other. The new leadership understands the complexities of the market place better than the old. It therefore realizes how great the obstacles are to the achievement of union objectives without altering the market structure itself. It is consequently more comprehensively critical of present economic organization. It is more hostile to the suggestion that unionism be tamed to live in a competitive price system than is the older leadership.

Even though it feels a responsibility which older leadership often shrugged off, this very responsibility will commit the new leadership increasingly in the future to an anticompetitive position. Though all unionism is essentially anticompetitive, it is nevertheless true that some union leaders may regret their conflict with the competi-

tive system and speak apologetically in terms of compromise while other and more responsible leaders may thrive on the challenge which the conflict presents. The latter may come ultimately to confess publicly their desire to lead the way to a new order.

Many people find it hard to believe that unionism will not restrain itself simply in the interest of security for the union and its membership. They cannot be convinced that unionism will do anything which greatly increases the likelihood either of depression or inflation. But the standard union prescription for depression is maintenance of purchasing power through wage stability, and the standard prescription for inflation is wage increases to meet the rising cost of living.

So long as inflation and unemployment continue to occur in circumstances where cause and effect cannot easily be untangled, there will continue to be a strong presumption that these remedies are well advised. Wage maintenance in periods of unemployment is desirable in most cases, and it will be difficult to prove to the unionist's satisfaction that a depression may be induced by high wage rates and hence constitute an exception to the general rule. Again, most inflation stems from an excess of money demand for goods, not from high wage costs. It will be difficult to persuade unionists that an inflation is being produced by high wage rates and that wage increases should not follow upon new price increases.

Finally, some observers cite the immediate postwar experience to prove that unionism is capable of the kind of public-spirited self-restraint necessary to save the competitive price system. It has already been argued in an earlier chapter that the evidence on this score is unconvincing. Much of the self-restraint attributed to unionism

in the war years and immediate postwar months was imposed by wartime price and wage controls. In the period immediately following the removal of legal limits on wages, the most impressive evidence of union self-restraint was largely limited to one union whose dramatic bargaining tactics caught the public eye.

The action of this union—the United Automobile Workers of the CIO—in declaring its intention to withdraw its wage demands if it could be shown that a wage increase would force a price increase for automobiles has been held up as an example of mature responsibility in union policy. The implication has been that this is what may be expected of unionism in general in the not-too-distant future. But it would be careless to generalize from one example, conspicuous because it was not in line with the unqualified wage demands of most unions at the time.

Actually, the example itself does not indicate what it is commonly thought to indicate. It would seem significant that the union made its qualified wage demand after it had first satisfied itself that General Motors profits permitted a wage increase without a price increase. Whether the union would have so conditioned its wage demand if it had not believed that a wage demand could be granted without a price increase is not known. Yet this is precisely what ought to be known if this is held up as an example of self-restraint.

But if the present officialdom of the UAW is an example of public-spirited leadership, it is also an example of leadership apparently out of sympathy with the rules of the competitive price system and wishing to move toward reforms which would permit the union to place "warm human needs" above the requirements of competition. If it is responsible, it considers itself responsible to a people,

not to an economic system, and perhaps to an ideal in a distant future, but certainly not to competition.

One possibility remains for encouraging the self-discipline which unionism must possess if it is not to disrupt the economy. Short of outright wage control, perhaps government can informally guide union policy.

The effectiveness of guidance depends upon the techniques by which government can make its recommendations known. It is becoming popular to suggest that unionism may be restrained by the exhortation of high public officials. The subject of their exhortations is to be good and evil rather than wage policy. It is apparently believed that an appeal to fair play, to "mature" judgment and to the statesmanship of union leaders is sufficient, no particular wage policy need be suggested.

The impossibility of achieving results with this moralistic approach should be obvious. In the first place, an identical appeal to business monopoly has consistently failed; yet in this earlier appeal it was possible to mix an appeal to self-interest with the appeal to morality, for the evangelists of low-price policies could always correctly argue that lower prices would often actually increase profits. Secondly, the union leader may be highly moral, public-spirited, mature, responsible, and every inch a statesman—and still lead his organization in anticompetitive wage policy. So long as many aspects of the price system are in the eyes of the unionist immoral, he cannot be won over by an appeal to morality.

More economics and less morality would be of greater effectiveness in restraining unions. In particular situations, appropriate officials of the Federal Government can perhaps encourage or retard wage increases by an appeal

couched in terms of the economic consequences of union policy. It can also be made known in advance of government participation in the settlement of a major strike that government representatives will not use their influence to bring about a settlement favorable to the union. If, as is often the case, the union has anticipated assistance from government in the final showdown, such an announcement may act as a powerful restraint.

But wartime experience with the Little Steel Formula shows how wage rates may creep up even around the limitations imposed by law. They rose significantly during the war as special rulings enabled workers to win wage gains which could not be had through a frontal attack on the formula itself. Inevitably, in peacetime guidance of wage policy, problems of adjustment of relative wages will develop for which exceptions will be made to the government's policy of restraining wage increases. And inevitably new concessions will have to be made to remedy inequities in comparative wage rates caused by the earlier concessions. The line will not hold.

The effectiveness of enforcement through public opinion in and outside the union will presumably be greater where the issue is made sharp by flat opposition to any wage increases at all. Ordinarily, however, the government will grant the legitimacy of a gradually rising wage level as productivity rises, with the result that it must stand for a policy of "some, but not too much." Under these circumstances the difference between union cooperation with or union opposition to a vaguely stated government policy is not easily defined and union demands hence are not effectively curbed.

These are the prospects if unionism does not defy government policy frankly and openly but instead whit-

tles away at it while paying it lip service. How much worse the prospects if unionism will not go even that far. In the politics of democracy it may be impossible, lacking union support, to declare a general wage policy with any definiteness, and an indefinite declaration is ineffective. Or if it is possible, it may be so only because the policy does not seriously restrain union wage demands.

Government runs up against the difficulty of finding satisfactory criteria for "correct" wage policy. The problem is a matter of both ignorance and conflict of interests. As for the former, in a concrete situation in which inflation or unemployment threatens, it is often impossible to know just why it threatens. And yet no government wage policy can be defended in the absence of this information, for which wage policy is correct depends upon what is causing the disturbance. As for conflict of interests, the obstacle is again the conflict between society's interest in labor as a commodity and the worker's interest in himself as a human being. Government will wish to price labor in relation to the requirements of the competitive price system; workers will simply want higher incomes to satisfy their needs for comfort and security.

Lacking defensible and acceptable criteria, it is unlikely that government can establish an advisory wage policy which will run the risk neither of inflation nor of unemployment and which will at the same time not incur so great and outright an opposition from organized labor as to become ineffective as a general guide to union policy. Even if the only objection to the announced policy were that it represented a guess rather than a recommendation of provable soundness, it would seem unreasonable to expect unionism to forego the pursuit of better living and security for its members because a group of government

officials has concluded that wage gains "might" endanger the stability of the economy.

It has been suggested that unionism might be curbed by the government's declaring its determination to prevent, through fiscal policy and monetary management, any general price rise regardless of the movement of wage rates. The supposition is that under this threat unionism would abandon its immediate wage aims for fear of the unemployment which would follow upon a general wage increase. It is also supposed that such an announcement would induce management to resist wage increases to the last ditch for fear of being squeezed between rising wage costs and fixed prices.

Such a declaration would actually be a bluff and would be so recognized. A democratic government cannot remain true to a pledge which commits it to inactivity in the face of unemployment. It may declare in advance that unionists must pay in unemployment for what they take in wage increases, but it will not dare let them pay. Moreover, it is doubtful that any such pledge would restrain unionism, even were it not considered to be an empty threat. For if the argument of previous chapters is correct, unionism will proceed with wage increases in the belief that they can be taken out of profits, improvements in managerial efficiency, and increased worker productivity, even if in fact they cannot.

Nor would such an announcement force management to a stubborn resistance to wage concessions. Fiscal and monetary policy aimed at stabilization of the price level in general cannot prevent any individual firm or industry from raising its prices as an offset to increases in costs. What is required for this purpose is price fixing, not gen-

eral monetary control. But if permanent price control is required to maintain responsible wage policy, it might be just as well to forget about responsible unionism and set wage rates by law.

A government wage policy, whether in the form of a recommendation or a threat, is always in danger of being abandoned by government itself whenever seriously challenged. When a major strike interrupts the flow of goods and services to the consumer and makes thousands of nonstriking workers in related industries idle, the pressure on government to find a quick settlement "at any cost" is tremendous. At that point the maintenance of a general policy on wage rates becomes much less important to practical political leaders than resumption of production at whatever wage rates will bring the two parties together. Settlements in coal and steel during and immediately following the war are cases in point.

If it were not for the strong pressure to find peace at any price in an emergency, government participation in voluntary arbitration or fact-finding procedures would seem to offer hope for encouraging self-restraint in unionism. But government participation apparently cannot get around this basic difficutly—not because government is irresponsible but because goals change in the emergency of a major strike.

As a matter of fact, both fact-finding and arbitration techniques in the United States are discussed almost entirely as means to industrial peace. Only during wartime wage control was any real consideration given to their potentialities as methods of wage control. Historically too, the arbitrator and fact finder have not functioned to promote justice, to safeguard the public interest in prices and

employment, or to administer a government wage policy. Theirs has been the essentially negative function of preventing or stopping a strike.

Arbitration and fact finding appear to be methods of restraining unionism because they wear the aspects of the judicial process. It is tempting to believe that wage policy can be controlled by submission of disputes to an impartial tribunal where reason replaces force. Given, however, the deep conflict of interest which characterizes many industrial disputes, the arbitration or fact-finding function is not at all like the judicial function. The arbitrator or fact finder is faced with the fundamentally anticompetitive position of the union—that wages ought to be decided on the basis of workers' needs—and the labor-as-commodity position of the employer. Arbitration and fact finding no more escape this conflict than do any other systems of wage determination.

This being so, the arbitrator and fact finder discover no help in the deceptive superficial similarities between their function and the judicial function. The judicial process rests on law, and there is no case heard in court that cannot be settled by reference to already established legal rules. If the law is vague it may usually be interpreted in the light of more general legal rules, customs, or principles on which the community is largely agreed. But while the judicial process is the application of law, arbitration and fact finding simply have no law to apply.

Arbitration is even more deficient than fact finding as a method of influencing union policy. Unions can be required to submit to fact-finding investigations but they cannot be required to arbitrate their wage disputes without finally departing from any hope of union responsibility and making the leap to outright government regulation

of wages through compulsory arbitration awards. The use of arbitration by unions is growing, to be sure. But the growth is almost entirely in its use for disputes over the interpretation and application of a contract. Wage disputes stay largely outside the scope of arbitration.

Nothing could more effectively kill what interest exists in voluntary arbitration than its use as an instrument of enforcement of a government wage policy. Unions will turn to arbitration just so long as they believe they can win from arbitrators roughly what they might win by direct negotiation and the strike, considering all their objectives. If the arbitrator is committed in advance to the enforcement of a general wage recommendation by government, no union opposed to the government policy will take its case of arbitration.

A final possibility remains that government may inhibit wage demands by taking advantage of the cleavage between union officialdom and the rank and file. Union leadership is often more moderate than the rank and file in wage policy. But it lacks the courage of its convictions, because a conciliatory policy is often out of the question for an officer who wishes to be re-elected If leadership can shift some of the responsibility for wage policy to government, its hand is strengthened. Government guidance permits it to say in effect to union members. "We, your officers, cannot ourselves approve of this wage settlement, but we have accepted it and recommend your ratification of it because it does not seem wise at the present time to buck the wage policy of the government."

In some circumstances such a tactic may retard wage increases, even if it does not significantly limit them. At best it results in wage policy only as cautious as the leadership itself. If leadership is less aggressive than the rank and file,

it nevertheless still pursues wage goals which run beyond the capacity of the competitive price system.

In any case the price of seeking responsible union policy is unification of power and coordination of wage policy on an economy-wide level. So far, the most effective limitations on union power, even if they are inadequate, are those of competition among firms and industries which limit union policy formulated for the firm or industry. To pursue, then, the will-o'-the-wisp of responsible unionism is to weaken the restraint of competition, to grant unions significantly more power than they hold today. The advocates of statesmanship through unity are therefore also the advocates of unbinding a struggling giant in the hope that his great power will teach him responsibility to a set of values he does not now accept.

CHAPTER XVI

INDUSTRIAL DEMOCRACY AND THE PRICE SYSTEM

IF UNIONISM is at odds with the competitive price system and if no reasonable hope can be held out for development of the kind of responsibility in union policy which will accommodate unionism to the system, what can be done to head off economic disorganization?

One possibility is the restoration of preunion labor markets. Another possibility is wage determination by government. In either case union power would be broken. The former requires that wage rates be subjected to the impersonal forces of the market; the latter that they be subjected to a central authority. Both are therefore drastic reforms and neither is today politically palatable.

In union circles the concept of "industrial democracy" is widely discussed as a kind of pattern for social reform. It is commonly thought to provide a third alternative, less drastic than the other two, more in keeping with the trend of the times than a program to restore competition, yet not calling for a great extension of the power of government in economic life. It is a concept so important in union thinking and so highly respected by the friends of unionism that it cannot be passed over lightly. Nor can any possible solution be slighted when the remaining alternatives are so unsatisfactory.

"Industrial democracy" refers both to the control of economic life and the distribution of the jointly produced income. With respect to control, it envisages a scheme of

economic organization in which the union in industry limits or deposes industrial autocracy. The businessman surrenders power to workers, and economic life is controlled by those governed. The power of the minority falls to the majority. Avenues to responsible participation in the control of economic life are thus open to all. A "Bill of Rights" in industrial life is established, industrial law replaces the arbitrariness of the employer and establishes "rights" to the job. These are all considered to be the counterparts in economic life of the citizen's political rights and privileges in the democratic state.

As for income distribution, its improvement follows. In creating rights to the job, in providing the worker with organized power to increase his income, and in protecting him against a wide variety of insecurities, industrial democracy contributes, it is believed, to a more democratic distribution of the joint product.

Industrial democracy, thus defined, is a reflection of a sincere interest in the democratization of economic life. And the very spirit of the concept reflects its advocates' interest in personal freedom. It is also clear that unionism has already made an enormous contribution to the development of democracy in industry.

But what does industrial democracy imply as to the basic structure of the economy? Does it provide a real solution to the problem of incompatibility between unions and the price system? Because the case for industrial democracy rests on the assumption that the price system is undemocratic, the answer then depends on how undemocratic the price system is and how industrial democracy affects it.

Whether the price system is democratic or not can be determined by a comparison of the democratic political

state and the price system as alternative forms of social organization for the discharge of important public functions.

Both forms of organization depend upon delegated authority to exercise active and immediate control. Both thus surrender large powers into the hands of a very small governing or managing minority. Both then proceed to subject these small minorities to the ultimate control of those over whom they exercise immediate authority. The price system establishes a kind of voting with dollars; the democratic state uses the vote as well as various types of pressure directed at the responsible officials.

In both systems as an ideal the governing minority exercises a minimum of discretionary authority. Under conditions of perfect competition the entrepreneur is relatively powerless, since he can affect neither price nor the community's output of any commodity or service. If he attempted to raise price, for example, he would lose his business to competitors. In the political state under comparably ideal hypothetical circumstances, the chain of influence through which the voter controls the governing minority is sufficient to remove them from office should they ignore the wishes of their constituents.

In the real world these ideal conditions are only approximated, with much debate on the degree of approximation achieved. But if the minority is at all responsible to those governed, some limits curtail discretionary power.

It follows that irresponsible authority is a defect of price system and democratic state alike. In the price system the major problem of this kind is monopoly. It is significant by democratic standards because it is a frustration of democratic control over the minority in power rather than because it is a cause of high prices. In the democratic political state the comparable defect may be any

one of a number of devices. rigged elections, faulty representation in legislatures, administrative independence from legislative control—to mention only a few of the possibilities.

A further similarity is that as an ideal the staff under the direction of the governing minority is without power or special privilege. If the public as a whole is to be the source of power, it is necessary to eliminate not only the exercise of discretionary power by the governing minority but also power and special privilege for all those who might wish to establish special claims because they participate in the discharge of the public function.

Concretely, while the employees of the Department of Agriculture and the employees of a textile company have the same rights, privileges, and powers as other citizens and consumers, their close connection with these two enterprises performing public functions does not justify their sharing the policy-making responsibility in either the Department of Agriculture or the textile company. Nor does it justify any other special privileges.

A final similarity is that both systems respect within limits the wishes of minorities. In the price system services are performed for majorities and minorities alike; as a matter of fact, whether the group desiring a service or commodity is a majority or minority of the whole community is irrelevent. To what extent a democratic political state undertakes functions desired by a minority depends upon whether institutional arrangements such as balloting and legislative representation are effective in registering minority desires.*

* Of course the democratic political state is a device not only for the performance of a "productive" public service but also for the maintenance of law and order, and only through it can the basic civil rights of minority groups be protected.

The similarities between the price system and the democratic political state suggest that the price system in its field is potentially as democratic a method of organization as the democratic political state. And so far as actual rather than potential operation is concerned these comparisons do not in any way imply that a price system in its own field operates any less democratically than a democratic political state in its field.

Industrial democracy is an attempt in industry to substitute through unionism the devices of the democratic state —the legislative process, balloting, elected officials, and the like—for the devices of nongovernmental public control in a price system. It therefore abandons one imperfectly democratic scheme of organization for another. It follows that industrial democracy may be no more democratic than what it replaces.

But to continue, one significant contrast between the two systems is in the inequality of votes in the price system and the very strict principle of equality of votes in the democratic political state. Inequality of income is of course the root of the inequality of vote in the price system. Incomes cannot be equal if wage and price movements are counted upon to allocate resources, including labor.

The price system thus appears to display in income inequality and consequent inequality in voting power a serious inability to meet the standard of democracy. To be sure, power over the governing minority in a democratic political state is exercised not only through the ballot but also through a variety of pressure activities. Because they are costly, they are beyond the reach of some. Nevertheless, as an ideal, power is shared equally, and this cannot be said for the price system.

It would seem perfectly obvious that these inequities are inconsistent with the democratic ideal. If they are viewed simply as income inequality, the case is actually not so clear, but if they are viewed as inequalities in the power to control economic life through voting with dollars, the contradiction between the democratic ideal of equality in power and income inequality is starkly presented.

But different kinds of power should be distinguished one from the other because they are not all equally necessary in a democracy. Power to change the "rules of the game," power to lay down the basic institutional framework of the society, and liberty to speak freely are powers and privileges which it is generally conceded must be distributed equally in a democratic system. Power over the services and goods to be produced in the system can be argued to belong to a different category.

Strictly speaking, all that is required in a democracy is that each citizen possess equal political power over the rules according to which income is to be distributed. Whether citizens vote for rules establishing an equal distribution of income or for rules creating inequality is irrelevant. Inequality in dollar votes as a method of control of the economy is therefore not necessarily undemocratic. The decision of the society to distribute dollar votes unequally is democratic if the decision to do so is made by a majority of citizens in a political organization in which each citizen has one vote.

For those who wish to define democracy with reference to economic and social position as well as to political power, inequality of income will however remain undemocratic. The broader view of democracy would require a fixed amount of goods falling like manna from the skies to

be distributed in equal shares. It would not be enough merely to equalize political power in voting for rules for the distribution of the goods.

But perhaps even this broad definition of democracy would permit differences in income shares in a society like ours in which the total income of the community could be increased by permitting producers of increased income to consume all or much of their particular increment, for in such a case the increased income or dollar votes permitted some individuals would not seem to be at the expense of others. In effect, the increase in voting power of one citizen appears to do no more than give him control over the newly produced income for which his particular efforts are responsible.

Actually, however, it cannot be argued that an increase in income to one person does not affect others, unless the increase is insignificant. Income differentials have indirect consequences for political power and intangible consequences for social relations. In a society, the size of one's income relative to another's is more important than its absolute size.

A strong presumption is thus established that the existing inequality in income, viewed as inequality in dollar voting power, is an undemocratic imperfection in the price system.

But is industrial democracy a remedy for this imperfection? Union efforts to alter the distribution of income are not necessarily an improvement over the previously prevailing situation. If they are not, many of the careless claims made for unionism on this score are at once invalidated. A large wage increase won over and above a previously prevailing competitive rate will eventually cause either a price increase, unemployment, or the reallocation

of displaced workers toward lower-paying jobs. The union may therefore increase the incomes of one group at the expense of another, and inequality may be increased rather than diminished.

It is impossible to count on any predictable change in the distribution of income as the result of union control of wages. Wage incomes do not necessarily increase with increased wage rates. The consequences of union power may be to equalize income somewhat through the increase in the shares of the wage earner as against managerial groups, but, on the other hand, this is partly offset and perhaps overbalanced by inequalities in favor of the better-paid union worker over the lower paid, the organized over the unorganized, the employed over the unemployed, and the skilled manual worker over the white-collar worker. Unionism has been strongest in the highest-paid labor brackets, and even today with the widespread growth of unionism, collective bargaining does not advance the wage rates of the lowest-paid workers relative to highly paid workers in any systematic manner.

From an entirely different point of view, a major defect of industrial democracy with respect to income inequality is that it in effect attempts to correct inequality in income voting power by placing power in the hands of the union, a minority group. Ideally, the distribution of income in a democratic society is controlled by the citizenry or by a majority of them, acting either directly through the machinery of the political state, as in tax legislation, or indirectly through the institutional arrangements of the price system. Granted that in fact the distribution of income in our economy may be undemocratic, it is difficult to justify as a permanent arrangement the concentration

of large power over income distribution in the hands of a minority institution such as the union.

Much of this criticism of unionism as a device for remedying undemocratic inequalities in income distribution reduces to the proposition that the manipulation of the price of a commodity or service—in this case, labor—is disruptive of the whole system and is unlikely to bring predictably desirable results. Thus industrial democracy is a proposed remedy for this undemocratic imperfection in the price system which actually aggravates the difficulty in many cases and produces unknown results in many others. An effective attack on inequality in income requires a secondary redistribution of income through taxes and social security payments so that shares of income are to some extent divorced from wage rates and prices.

Does industrial democracy do away with arbitrary managerial authority in the economy? Arbitrary power in the hands of the active governing minority, it has already been suggested, takes the form of administrative irresponsibility in government bureaucracy and the form of monopoly in the price system. The monopolist is one who is not held entirely responsible to his consumer constituents because he is not vigorously competing with other firms for the favor of buyers. In the same way if he holds monopoly power in the labor market he is not wholly responsible to his employees. Within limits he can abuse them because he is not competing for their services with other firms.

The distinctive and revealing characteristic of the union attack on this undemocratic imperfection in economic organization is that it is a proposal to remedy monopoly with monopoly.

If two kinds of monopoly are worse than one, unionism in the name of industrial democracy makes the system less democratic rather than more. A priori, two monopolies are not necessarily worse than one, for it is conceivable that the struggle for power between the two may restore to the citizen consumer or worker some of the power which one monopoly takes from him. But this is not the way it works out. Deliberate collusion may take place between the two monopoly groups to exploit the public. Industry-wide bargaining, however, itself is sufficient for this purpose. The employers simply pass increased wage rates on in the form of higher prices, their own monopoly power being strengthened by the union's having taken wage rates out of competition. But of course union monopoly increases the degree to which entrepreneurs may be held responsible to the organized wage earners.

If unionism is an especially important, strategically located, and powerful monopoly, industrial democracy transfers from a less powerful to a more powerful minority group significant powers affecting price and output in the economy. Again the gain for the unionist is not difficult to see; but from the point of view of the consumer citizenry the shift in power may be to increase rather than decrease the arbitrary and discretionary power of governing minorities.

It is sometimes argued that administrative irresponsibility or autocracy is a very small, even trivial, problem in the relations between consumers and entrepreneurs and a serious problem only in the relations between workers and entrepreneurs. Consumers are not abused but workers are. Assuming for the sake of argument that this is correct, it does not follow that it is democratic to force management to surrender certain powers to employees in the

name of industrial democracy. For consumers will be affected by decisions made by monopoly unions with their new power and yet have no democratic control over them. The consumer may be undemocratically exploited by monopoly power in the labor market just as well as by the monopoly power in the consumer goods market.

Industrial democracy is therefore a device for counteracting the arbitrary power exercised by the employer over the worker, which at the same time establishes the undemocratic arbitrary power of the union over the consumer.

Finally, irresponsibilities in power relationships will exist within the union, for the union is itself a political organization in which a governing minority can never be held wholly responsible to the membership. No political organization ever achieves ideal democracy. In order to restrict irresponsible exercise of power by the employer, unionism proposes specifically to place authority in the hands of elected representatives of the workers. Rather than develop techniques for controlling power through competition, it turns to political organization in which irresponsibility may be either less or greater.

For at least one reason, political organization is seriously defective in unionism. Certain issues do not lend themselves to settlement by simple majority rule. It has been shown that a majority in the union may undertake to establish a wage rate which destroys the jobs of the minority, with the result that the displaced workers eventually leave the union. A majority of those remaining within the union may repeat the process indefinitely, the now dispossessed minorities formerly belonging to the majority. Political organization requires greater stability of the electorate if majority rule is to be defended as democratic.

Historically, the gains made by unionism along the lines of industrial democracy have contributed greatly to the genuine democratization of economic life. In an economy plagued by repeated depression, as ours has been, the price system works far less democratically than might be supposed from the argument of this chapter on the democratic potential in the price system. In particular, in periods of unemployment workers do not have alternative job offers at hand; and the employer may therefore seriously exploit his employees, as many have done.

Unionism will in the future continue to make significant contributions to the democratization of economic life. Unless it holds monopoly power, however, it is too weak to win for workers many of the powers and privileges toward which its efforts are now directed. But if it holds monopoly power, while its gains for members will be greater they will be at the expense of the consumer. Unionism is therefore in a position in which it can continue to reach its goals with regard to curbing the power of the employer only by becoming itself a minority exercising powers undemocratically over income distribution and output.

Thus "industrial democracy" provides no escape from the disruptive consequences of unionism. Despite its very great merits, many of which have not been discussed, it is monopolistic and undemocratic. And now that its implications have been examined, perhaps it can be recognized here for what it really will become in the hands of a labor movement with monopoly power: syndicalism with all its faults. For what it actually proposes is that the problem of economic organization be met by forcing the employer to share his power with his employees under industry-wide arrangements which disfranchise the consumer, who will then be unable to control the economy by casting

his dollar vote in competitive markets. Essentially, it is control of the economy by producer groups. It is democratic as a proposal for economic organization only in the limited sense that it assumes that two producer groups should exercise authority rather than one.

CHAPTER XVII

THE INADEQUACY OF COMPETITION

IF "industrial democracy" offers no solution to the conflict between unionism and the competitive price system, one of the remaining possible solutions is the restoration of competitive labor markets.

Problems of social policy would be much simplified if it could be shown that unionism is disrupting the ideal economic order. From that fact would follow its condemnation and—if political support could be had for a program—its quick suppression. But competition is not even potentially the best of all possible worlds. And when unionism has grown to power because without it the competitive economy is intolerable to millions of workers, the restoration of competitive labor markets is not likely to be accepted as a goal of public policy.

Competition is a standard which many economists favor, partly because they understand and appreciate its undeniable merits as few others do. Their attitude may also occasionally reflect some confusion between perfect competition as an analytical ideal in the science of economics and perfect competition as a social ideal in economic life. Notwithstanding their support, the competitive system is on trial for its life.

For a number of important, fairly specific reasons the "maintenance," "restoration," or "creation" of a competitive economy is an impossible goal of public policy.

The difficulties of generating among voters widespread loyal support for enforcement of the necessary legal rules

of a competitive order is an immediate obstacle. A society which develops strong motives to unionism will probably come at the same time and for similar reasons strongly to favor other noncompetitive institutions and practices. It is almost unnecessary to ask whether a strong union movement can be subordinated through legal rules to the competitive order. A people will not be of a mind to join or encourage unions unless they also care to pursue the kinds of governmental policies which strengthen unions.

Just as unions wish to "take wages out of competition," so other producer groups want protection for themselves against the competitive pricing process. The farmer of course does not typically join a union. Instead he proposes some kind of farm relief, possibly like the AAA. The smaller retailer seeks security and advancement for himself through the protection of government, as in resale price maintenance and other legislation. In business in general, anticompetitive combinations protect themselves through tariffs and other legislative aids.

And for all that competition suffers by lack of legislative support when various producer groups insist on protective—and essentially monopolistic—legislation, it suffers again because the population shows fading allegiance to it as a general value. It is one thing to undermine the competitive order by demanding special privilege for oneself, meanwhile endorsing competition as the general procedure; it is another to turn away from it altogether. Yet we are doing the latter.

ducing changes in attitudes both among union members and others and through the consequent impact of these attitudes upon public policy.

To the new union member, for example, "industrial democracy" may mean nothing more than grievance machinery, but long participation in the movement will embellish the concept in his mind until it logically suggests worker control of industry. It is no accident that his definition of "industrial democracy" is so extended, for inevitably participation in unionism is education in social interdependence. Little wonder that his convictions on the desirability of the competitive order are then shaken, even if he shrinks from recognizing the radical implications of what he believes.

The new unionist naively believes that it is largely within the employer's power to give or deny his workers what they want. The old unionist comes to believe that the employer is pressed closely between prices and costs and that the real resistance to union demands comes from competition in the market for the product; hence he concentrates his fire on that. Membership in the union or acquaintance with the movement develops new loyalties and new ambitions, and they are neither loyalties to the requirements of competition nor ambitions realizable under the restrictions it imposes.

A more concrete obstacle to public policy aimed at the restoration of competition is the political power of organized labor, which since the presidential election of 1948 has been shown increased respect. Labor is now much better organized and better financed for political action than it was even two or three years ago. If the Taft-Hartley Act eventually falls to the political attack of organ-

ized labor, the prospects for drastic legislation to break union power over wage rates are insignificant.

A more or less competitive economy can survive, in a period in which organized labor becomes a major political power, only if organized labor supports government policies designed to enforce competitive practices and curb monopoly generally in the economy. Competition does not run itself; it is no longer synonymous, if it ever was, with laissez faire. But organized labor is not only hostile to competition in labor markets, it is also indifferent or hostile to rigorous enforcement of competitive rules in other areas of the economy. If government were to undertake an effective antimonopoly campaign for enforcement of antitrust laws, tariff reduction, repeal of fair trade laws, elimination of interstate trade barriers, and the like, leaving union monopoly otherwise untouched, it could not count on broad support from organized labor. On the contrary, it would have to fight organized labor as a whole on many of these points and substantial elements of the labor movement on every one of them.

Even where political support for a program is generated, public policy may not be effective in restoring competition. The difficulties are illustrated in the common proposals to eliminate industry-wide bargaining in order to curb the monopoly power of unionism. But already unionism has outgrown the restraints that might at one time have been effective. National wage policies, consultation among national unions, and the tendency of wage movements to follow certain key wage settlements all indicate the degree to which wage determination may be removed from the check of competition without the formality of contracts negotiated and signed by representatives of

whole industries. To declare a contract illegal if negotiated on an industry-wide basis would not significantly restrict union power.

Nor can it then be declared that agreement among local or national unions upon wage demands is illegal. It cannot be made illegal for one group of workers to want the wage gains achieved by others. Such a policy would drive the government to the ridiculous position of insisting that wage negotiations and contracts were legal only if they bore no resemblance to any prior negotiation or agreement.

No doubt it is more simple to declare illegal a concerted industry-wide strike than to prove illegal collusion in the face of relative uniformity of wage gains. But the power of unionism does not rest on industry-wide work stoppages, and wage increases may be as successfully won by striking a dominant firm alone or each major firm in turn as by striking the industry as a whole.

Many of the practical difficulties of achieving through public policy an ascendancy of competition over unionism might have been avoided had government withdrawn its support from unionism when it was still too weak to stand on its own feet. One cannot be sure of this, but the matter is of no importance since it is too late to try. If today the withdrawal of explicit government support for unionism effectively frustrated the organization of areas that are still nonunion, the destruction of competition would continue in the areas already organized. And this is more than sufficient to disrupt the economy.

These are practical difficulties standing in the path of a political program to subordinate unionism to competition. They suggest that competition as a goal is politically im-

possible even if, political expediency aside, it were desirable. The economist, however, should permit others their opinion as to feasibility and should be willing to discuss the merits of a reform on the assumption that it is politically possible. There is no end of objection to competition as a norm for public policy. Possibly the very difficulty of generating political support for competition should cast a cloud of suspicion on it. If it breeds not loyalty but indifference or antagonism, what are the causes?

One cause is that it may be impossible to prevent businessmen from acting together as monopolists even if their firms are separate legal entities. Hypothetically, it is possible to save competition from unionism only to have it die at the hands of corporate monopoly. Those who think this is a probability may wish to give up competition at once.

Nor can we be at all confident that public policy can create a competitive system capable of operating at a high level of employment. The enforcement of competitive rules by a strong, vigorous government may so undermine the freedom and confidence of the entrepreneur that he may be unwilling to undertake the volume of new investment sufficient to maintain employment.

More fundamentally, however, the objection to competition is to be found in the many legitimate complaints which workers bring against the economic system and for the removal of which they have created the union movement. The price system is a harsh system restrained by no bonds of sentiment or fellowship among its participants. Its measure of a man is his money. It reduces labor to a commodity, threatens the worker with insecurity from unemployment and low income, denies him responsible participation in economic life, and fastens upon him

a kind of control which to him seems authoritarian. By any intelligent standard the price system is far from ideal. All these objections were discussed in the opening chapter. If they are valid, competition can hardly be recommended as a remedy. Competition is not the solution to problems arising out of competition itself.

But it was also shown in the opening chapter that to a large degree insecurity is the price of liberty, industrial autocracy for the worker the price of industrial democracy for the consumer, and unemployment the price of flexibility and progress. Large-scale social organization of any kind creates problems of human adjustment which can never be completely solved. Democracy, liberty, and the hope of progress impose responsibilities and risks upon the individual which burden and frustrate him.

The continued dissatisfaction of the worker in the competitive price system is thus a symptom of conflict of values in a bad system capable of much good or—what comes to the same thing—a good system seriously deficient in many respects. To believe, then, that the competitive economy provides an unsatisfactory goal for public policy does not presuppose that such a method of economic organization is without merit. Quite the contrary, it grants the great accomplishments of such a system. But it declares that this is apparently not enough, that we in the United States seek a means of enjoying the benefits of liberty, democracy, and economic progress without paying the heavy price it has been necessary to pay under the competitive economy.

The impossibility then of turning back to competition for an escape from the problem of union power is a consequence of man's insistence that the liberty, democracy, and progress which the system has permitted him to enjoy

leave much to be desired. This insistence on something better may be utopian, but it may also be a kind of tribute to man's intelligence and courage. In any case it cannot be disregarded in appraising both the possibilities and impossibilities of alternative avenues of social reform.

CHAPTER XVIII

GOVERNMENT REGULATION

NEITHER industrial democracy nor public policy aimed at a genuinely competitive economy is an escape from the difficulties generated by the conflict between unionism and the competitive price system. The remaining alternative is government direction of the economy.

Earlier chapters have already argued that the growth of union power will continue to force upon government new responsibilities. Such government intervention as has so far dealt most directly with conflict between unionism and the competitive price system has aggravated its disruptive effects rather than pointed toward a solution. Perhaps the encouragement given to syndicalism in coal and railroads and now in our mass-production industries will continue to represent the outstanding contribution which government makes to a settlement of the differences between unions and employers. If so, we can expect inflation or unemployment to appear sooner rather than later, and we can look forward with greater rather than less certainty to the appearance of certain undesired features of tomorrow's syndicalized economy such as the division of the labor force into the privately employed and those subsidized by public works.

If hope for something better is to be justified—that is, if inflation and unemployment are to be avoided and the wastes and other social evils of an oligarchy of syndicates are to be spared us—we shall have to understand what the essentials are for more satisfactory outcome and at the

same time value a more satisfactory outcome highly enough to be willing to provide these not always easy prerequisites.

Two questions therefore require answers. First, what is required for a solution through government power to the problems of incompatibility between unionism and the competitive price system? Second, what are the prospects that these conditions can be met?

What a society is willing to accept as a "solution" to any problem depends upon the liberties, attitudes, beliefs, and modes of action which it values. For the problem at hand, three major values or social goals are especially relevant.

The first and perhaps primary requirement of reform is that it maintain and enlarge freedom, a value hardly necessary to defend or elaborate. The second, that it be consistent with economic efficiency. The third, that it protect the individual from economic insecurity.

Today the significance of efficiency as a criterion for social reform, as well as its implication for specific social institutions, is not generally appreciated. An interest in economic efficiency is identified with the petty or "low" pursuit of belly comfort. Even the professional economist is sometimes looked at askance by his fellow social scientists, who think him unable to raise his mind to the "higher" goals of public policy toward which their professional interests incline them. The economist is thought to be more concerned with dollar values than with human values, more with commodities than persons. He is perhaps most respected when he is busy at the problems of unemployment, not because unemployment is thought of as a symptom of inefficiency in the economy, however, but because it is directly a source of social instability and a

frustration of the social and psychological goals of the members of the community who lose their jobs and social status.

However valuable the economist's knowledge of the economic causes of frustration through loss of social status, it is hardly worth more over a long period of time than is his knowledge of the causes and cures of low standards of living, which is economic inefficiency in another guise. The pursuit of efficiency is not merely chasing the dollar. Efficiency in the use of the country's resources and labor is the basis of the health and physical comfort of the population. It is as necessary to education and enlightenment as education and enlightenment are to the maintenance of democracy and personal freedom. It is only too obvious that high productivity is the source of the leisure time with which the supposedly higher forms of human activity can be pursued and that it makes possible the diversion of a large part of the national income to instruments of education and enlightenment. The sciences and the arts rest upon it.

There is only one mode of escape from life which is little else than economics; it is to give economic efficiency the attention it deserves. In view of the patterns of living of millions of Americans, only the most thoughtless person can conclude that we have progressed so far already toward economic efficiency that the many advantages which stem from it are enjoyed by all who want them. We are by no means wealthy enough to be wasteful.

What are the basic requirements of economic efficiency in a democratic society? First, a method by which individuals can express their preferences with respect to the variety of commodities and services provided. Secondly, an effective method for allocating labor power to those

productive uses where it is most desired by consumers. This must be accomplished without at the same time imposing restrictions on the individual's freedom to choose his own occupation and place of residence. Third, a similar method for directing natural resources, capital equipment, raw materials, and all other productive assets into those uses which consumers have chosen as most desirable. Fourth, all these require in turn a systematic method by which the values of labor and productive assets in various uses may be calculated and compared. Fifth, an objective method is required for estimating and comparing the relative efficiency of various enterprises.

Lastly, the techniques through which all this is accomplished must be responsive to changes in the wishes of consumers, in the availability of natural resources, and in the technical equipment and scientific knowledge on which production depends, for efficiency is not to be had by productive plans suited to the wants, resources, and technology of yesterday.

From these requirements, which are in fact necessary to democratic control of the economy as well as to efficiency, it follows that any free and efficient economy must rely not wholly but in large part on some kind of a price system, whether competitive, socialist, or some combination of the two.

Reliance should not be taken to mean slavish adherence, for it will often be possible to organize some aspects of economic life through direct political control instead of through the price mechanism. Some individual and community needs—such as public education—are better determined by discretionary political decisions than by the decision of the individual to buy or not to buy. And under some circumstances, even in a democracy, manpower may

be organized more effectively by direct political authority than by the market, as in conscription for war.

Generally, however, it is difficult to see how individual wants can be determined in all their confusing varieties without the technique of free choice at a price. The political scientist objects to the long ballot in elections, but no ballot was ever so long as that the consumer would have to cast if he were polled on the commodities and services he desired. Then, too, the consumer cannot be expected to indicate his wants unless he knows what various commodities and services cost, but their cost cannot be correctly calculated unless consumers' wishes are already known, because each cost reflects values which could have been produced by the consumed resources in other foregone uses.

With respect to the allocation of labor, the only alternative to the direct political allocation of manpower, as in a draft, is allocation through variations in inducement which conform to consumer desires. This means that the alternative to a draft—and the only alternative—is a wage system, a price on labor. The criteria of efficiency and individual liberty both lead to this conclusion.

Most emphatically, reliance on "some kind of a price system" does not necessarily mean reliance on the competitive price system. The measurement and representation of consumer wants through markets, the measurement of values of resources in alternative uses, and the allocation of resources through price movements may be had in a socialist price system as well as in a competitive system.

But it seems unquestionably wise to avoid the acrimonious though ultimately necessary debate over the relative merits of a competitive price system, on the one hand, and

a planned or socialist price system, on the other. Nothing should be allowed to obscure the argument that, with respect of the values here discussed, the major policy choice is price system or no price system.

Even if this judgment flies in the face of a common superstition that the great choice before us is socialism versus competition, it is nonetheless valid. Whether a price system grounded in the legal institutions of competition and private enterprise is superior to one grounded in the power of the state to own and operate enterprises directly is not a question which needs to be decided in a statement of the most essential and basic conditions of intelligent reform.

It may be noted parenthetically that socialization in itself offers no escape from the problems of incompatibility between the competitive price system and strong unionism, as the experience of the British Labor Government with its nationalized industries makes evident. The problem of union power must be solved in any society relying on a price system.

While some kind of price mechanism must be maintained in a free and efficient economy and while at the same time a wide variety of supplementary controls or modification of the price system may be exercised by public authority—and, within narrow limits, even by private authority—it follows that a labor market must be maintained in which manpower is allocated by wage differentials rather than by political authority. The inescapable implication of this conclusion is that wage rates cannot be allowed to depart too far from those rates which represent a calculation of the value of labor as a productive resource. Only thus will an efficient use of manpower as well as full employment of it be possible.

The argument thus far apparently leads to the conclusion that the essential requirements of social reform—the price system and wage rates tied to wages-as-costs—are the very features of social organization against which unionism is in revolt. The minimum requirements of reform would seem to be those declared in the last chapter to be out of the question, for there it was maintained that competition is an impossible norm of public policy.

In part it is true that the essential requirements of reform are conditions which unionism considers intolerable and which the last chapter argued were impossible. If so, no really adequate solution to the problem of union power can be found. This is a conclusion which can no longer be avoided. A government wishing to solve the problem of union power on terms consistent with a genuine interest in liberty and efficiency will have no choice but to insist upon the perpetuation of many of the aspects of economic organization which are at the source of the union problem itself. Thus the prospects of government control of the economy seem no more promising than competition itself as a solution to the problems raised by unionism.

But it is too early to say that prospects are entirely hopeless. Some of the objections which workers bring against the price system may be valid only when applied to a competitive price system, in which monopoly is inevitably a serious problem and which in other respects too differs from a socialist price system. Furthermore, many of the objections to a price system and to income tied to a wages-as-cost concept reflect society's failure to develop non-wage sources of income and income security. Incomes need not be so closely tied to wage rates as at present.

Social security and progressive taxation can be pursued much more broadly and vigorously than at present in order to meet the legitimate needs of workers without forcing them to turn on the price system itself.

It may therefore be worth while to examine more specifically the possibilities of escaping from the dilemma now facing us. What would seem to be the specific requirements of a public policy seeking to realize the advantages of the price system yet at the same time attempting to meet the legitimate objections which workers bring against it?

First, the control of wages would have to be recognized as an improper area for the exercise of private power and be made subject to public authority. This in turn would require the emasculation both of independent collective bargaining and of the right to strike on wage issues or on any other issues through which monopoly power could be exercised. Public control could be accomplished either by subjecting the decisions of collective bargaining groups to revision or veto by government or by direct wage setting by government itself. In either case the complexities of the task are staggering, though not necessarily insurmountable.

A second requisite is the further development of sources of nonwage income to provide workers with the incomes which they would otherwise pursue through union monopoly. In a noncompetitive economy public ownership of industry would remedy some of the inequality due to concentration of wealth. In any economy more important sources of nonwage income are in tax-supported cash subsidies to low-income groups and services in kind. And by redistributing the costs of government progressive income taxation in itself can contribute greatly to improve-

ments in income distribution, regardless of changes in public expenditures.

As for special services, many opportunities for improvement in income distribution are available through subsidization of education at all levels, medical care, housing, transportation, clothing, and food. Subsidized education will produce gradual but sharp changes in the earning power of individuals. This is true to varying degrees of of other programs. These secondary effects of government services on income distribution are in the long run very great.

Undeniably large controversial issues revolve around the extension of these services, especially with respect to the choice between subsidies in cash and in kind. Quite aside from the probable insistence of workers that adjustments of their incomes be made in large part in cash, the ideal of free consumer choice creates a presumption that redistribution should aim to increase the disposable cash income of low-income groups. It would therefore seem to be a condition of successful reform that a program of negative income taxation be inaugurated in which outright cash additions would be made to low incomes just as through income taxation outright cash subtractions are now made from high incomes. These cash adjustments could be made before the payroll check is written, as is the case with withholding taxation today. Thus workers with low incomes would enjoy percentage supplements to to their pay checks, the percentage being highest for the lowest-paid group. An annual reckoning to guard against overpayment of subsidies would be required just as it is necessary today to adjust taxes withheld during the year.

Such a scheme as this would provide whatever degree of income equality was thought desirable by the community.

At the same time it would not disturb the rank order of income receivers, thereby maintaining the usefulness of income differentials as motivation to the allocation of labor power among areas and occupations. Nothing in this scheme would make it profitable for an income receiver to earn a small sum in wages rather than a larger one, other things being equal, because although the percentage contribution from public funds would decrease as the earned-wage income of an individual increased, his total income, which is a combination of the two, would always increase as his earned-wage income increased.

A third requisite is the expansion of special provisions for unusual needs, that is, an attack on insecurity through public insurance or special allocation of funds. Unemployment compensation and benefits for the aged and disabled would need to be developed or, where they already existed, expanded. Ideally these expenditures would not be supported, as they commonly are at present, by taxes which increase labor costs of the employer.

As a fourth requisite, syndicalist ventures would be disestablished, except for rare cases in which elements of them may be necessary for security. The loss of union control over the wage rate would presumably accomplish this without special effort of government.

Lastly, the legitimacy of certain union encroachments upon managerial prerogatives would have to be recognized. A system of job rights, judicial machinery within the plant to protect the worker from arbitrary authority, consultative councils on plant management—these and many other aspects of a genuine industrial democracy would have to be guaranteed to workers.

In some cases the power now taken by unions would be publicly administered. Seniority provides an interesting

though inconclusive illustration. Because seniority systems concentrate the hardships of unemployment on those groups that are the last employed and the first dismissed instead of distributing the losses more impartially over the work force, they are subject to much criticism, even though they can be defended as an alternative to arbitrary and easily abused managerial authority. Law and order in industry being accepted as a requisite of reform, the enforcement of a system of rights relating to hiring and promotion might be a proper duty for public authority.

These are the requirements of a solution to the conflict between unionism and the competitive price system. But they are not recommendations for policy because it is all too obvious that, however necessary they may be to a solution, many of them are politically impossible or unfeasible for other reasons. Again, a solution may be impossible.

What are the actual prospects that we can and shall turn to such a list of reforms?

With respect to improvements in the distribution of income and provisions for special emergency needs, social policy is in fact slowly moving in the required direction. To be sure, the requirement of outright cash payment as a method of income redistribution appears utopian. For every person who will view outright cash redistribution of income as a common-sense extension of income taxation and social security, ten will fear that such a program would demoralize the population.

The disestablishment of syndicalism is hardly a practical proposal for reform in a day when so many other developments in economic life encourage syndicates of business and agriculture as well as those of labor. The economy

comes increasingly to be dominated by great power groups, and legislation seems increasingly to be devised to accommodate and regulate them as though the legal responsibilities of administrators and legislators were now forever transferred from the individual to the power group.

But syndicates are grounded in wage control, and the major problem in domestic economic policy in its own right as well as in its relation to syndicalism would be governmental control of wages. Would it work?

The immediate obstacle is the lack of satisfactory criteria by which a public authority could set wage rates. Public control will founder on this reef.

One suggested criterion is comparative wage rates. But because the biggest problem will inevitably be the general level of wage rates rather than the rates of one group of workers relative to another, this criterion is wholly unsatisfactory. And even for relative wage adjustments it is an impossible long-run criterion. Each group's wage rate cannot be set by comparison with every other group's.

Nor can wage rates be determined, as is sometimes suggested, by the cost of living. Quite understandably, workers want to raise their living standards and will not tolerate being placed upon a treadmill where the forward movement of the wage rates makes no headway against the movement of prices. Unions may earnestly press the cost-of-living principle upon employers or government officials when prices are rising faster than workers' incomes. But in other circumstances increases in money wage rates only to offset the rising cost of living condemn the worker to a never-rising real income.

When wage increases raise costs and threaten to bring about depression, the government's recourse is to allow

prices to rise and thus restore to business firms the profit margins which wage increases have appropriated. But if wages are set by reference to the cost of living, price increases will bring about further wage increases, and they in turn further price increases ad infinitum. Hence no government can commit itself to a cost-of-living criterion if it wishes to retain power to control the level of prices and business activity.

The ability-to-pay criterion for wage adjustment is of course another possibility. It will concentrate wage increases in those firms or industries where profits are relatively high. The resulting inequities of income distribution among various groups of workers can hardly be defended. Less obviously, such a criterion also transfers income to workers which would otherwise often be enjoyed by consumers in the form of price decreases.

Even more serious, appropriation of high profits through special wage increases chokes off economic expansion at the growing points of the economy, for high profits are often the inducement to the introduction of new techniques, the exploitation of new markets, and the development of new products. If high profits at growing points of the economy must be paid out in wage increases, they cannot draw new firms into the areas in which expansion is desirable. To be sure, where high profits are the reward of monopoly, there can be no objection of this sort to the appropriation of profits through wage increases.

The best by far of the allegedly practicable criteria for wage-rate adjustment is worker productivity. It is argued that wage rates in general can be tied at least roughly to a gradually rising average productivity per worker in the economy, measured in dollars.

The major difficulty with such a criterion is that it ad-

justs wage rates by a measure of productivity which is much less relevant to wage determination than another which, however, cannot be measured statistically for purposes of wage control.

Through the introduction of a labor-displacing machine an entrepreneur may raise the total output of his plant by, say, 10 per cent without employing any additional labor. The average productivity of his labor has then risen by 10 per cent. But he may now be able to dispose of some of his labor force. At the margin, in other words, the value of labor to him may be very low, despite the high average product per unit of labor in his plant.

Unless wage rates are held down to productivity at the margin and not simply to average productivity, the threat of inflation or unemployment is not met, for wage rates higher than the marginal productivity of the employed workers make labor too expensive to hire. Either labor will become unemployed or prices must generally rise to make its marginal productivity increase.

Average productivity varies greatly from firm to firm and industry to industry. If it is used as a criterion of relative wage-rate adjustments, its use will create great inequities in the distribution of income, to say nothing of the misallocation of resources from charging one industry a much higher price for its labor than is charged another.

On the other hand, if it is proposed as a criterion of general wage changes for the economy as a whole, it is also deficient, for productivity in different industries and areas will change at different rates from year to year. Hence a general adjustment which is correct for one industry will cause unemployment in another. And if it is used for general adjustments only, maladjustments in relative wage rates will slowly accumulate without correc-

tion, since relationships between wage rates in different industries will in effect be frozen when they should be changing.

The best that can be said for adjustment on the basis of average productivity is that, although it differs much from marginal productivity, it will usually change to about the same degree and in the same direction as marginal productivity But because "usually" does not mean "always," its use is still dangerous.

If for all its deficiencies average productivity is nevertheless the best of all possible criteria, it becomes again apparent that the problem of union power is to a large degree incapable of solution.

What is actually required for a system of wage determination consistent with the requirements of a price system is still another criterion which, however, is not practicable without a drastic reorganization of labor markets. And even then it might not work out satisfactorily. This criterion is the volume of employment or degree of labor shortage in a given market for a given type of worker. It would require that separate wage rates be established for an enormously wide variety of occupations, skills, and geographical areas. Under such a scheme wage rates for a particular classification of worker in a given market would be lowered or raised in order to absorb any unemployment through wage reductions or to ration a labor shortage through wage increases. It would require that union power be completely broken. Only in a system such as this would labor as a resource be valued properly in relation to its productive contribution to the satisfaction of consumer wants, for all workers would be employed yet they could not be employed if their wage rates were higher than their marginal productivity.

At best it would be necessary to compromise the strict application of the procedure for a number of practical reasons. Not all short-run variations in employment could be compensated for by wage movements without great distress. Nor in case of unemployment would it be wise to reduce wages to induce increased hiring if low wage rates did not interest employers. In many circumstances the scheme would fail because employers would not be able to change their plants to accommodate more workers, even at very low wages.

In this scheme it would be imperative to distinguish between general unemployment due to monetary disturbances or investment failures neither attributable to nor correctable by wage changes, on the one hand, and unemployment arising from excessively high wage rates in critical areas or in the economy as a whole, on the other. It is, of course, unlikely that unemployment would ever be caused by excessively high wage rates if the rules for wage setting to clear each individual market were being rigorously followed. If union power had been broken and such rules were followed, wage rates simply could not have been pushed up.

If in any circumstances doubt arose as to the responsibility of the general level of wage rates and consequent wage cost for a low level of unemployment prevailing, it would be possible for government to reduce wage rates as an attempt at a corrective without risking the dangers commonly thought to attach to wage reduction as an anti-depression policy. A common objection to wage reduction in depression is that it encourages among employers the expectation of further reduction. Where wage reductions are administered for the economy as a whole in a definite and announced scheme, this difficulty can easily be over-

come. A second common objection is that wage reduction lowers workers' incomes and hence reduces the total volume of spending in the economy. But if the government commits itself to the maintenance of the total volume of spending, perhaps through outright subsidies to individuals, wage reductions will not reduce the total volume.

Finally, all these criteria are lacking in public appeal. Neither this last rather fanciful criterion nor any other can be seriously proposed as a practical reform in a society so unanimously opposed to government wage control as is ours. Employers know that wages can be regulated only in relation to price and that wage regulation means in fact wage-price regulation. Their continued hostility to the extension of government authority in this field is to be counted on The general public, even if it moves to the left year by year, is apparently yet unwilling to condone government power which seems to bear so closely on the personal liberties of workers. And certainly the unionist is opposed to government wage control. If unions are fighting a pitched battle against the competitive price system, they will not gently surrender to a government authority which seeks to perpetuate many aspects of a price system by government wage control.

Every proposed avenue of reform has brought us to a dead end. Government control of the economy cannot deal with the wage problem and appears to offer no more of a solution to the question of union power than does a return to competition. But if all avenues to a satisfactory solution to the problem of incompatibility between unions and the competitive system are closed off, this is not a problem that will soon vanish. It will trouble us indefinitely.

Of course the problem will be solved, as all problems are, in one way or another. The economy will not come grinding to a stop. For some time to come the best we can hope for is a society organized on the basis of a kind of warfare between major power groups. We shall be faced increasingly with inefficiency and rigidity in economic life as syndicates grow in influence and arise in industries now free from them. Whether union power gives us inflation or unemployment depends upon more than unionism itself. It can produce either, but the choice of the two will be made by government fiscal power and national monetary authority.

If no policy is adequate, some policies are nevertheless better than others. The apparent impossibility of finding a satisfactory solution to the problem of union power should not discourage the discussion of suitable policy. Rather it should stimulate an exhaustive analysis of it. Because in a democracy no problem can be solved until it is widely recognized to be a problem, the greatest possibilities for finding a solution remain to be discovered. So far, public opinion has had no occasion to express itself on what the public is willing to undertake, what sacrifices it is willing to make, what social controls it is willing to consider in order to find its way out of this dilemma.

Paradoxically, the labor movement is the only large organized political force in the country which might some day be the instrument for a vigorous and intelligent attack on the problem of union economic power. Other groups are fearful of change and hence incapable of forward-looking leadership. In particular, organized business throws its energies into a vain effort to hold back the future. Smaller groups, such as a liberal veterans' organization or the consumer cooperative movement, may be in

the forefront of constructive social reform; but they lack the gigantic strength of the major interest groups in the economy, such as organized labor and organized business. Only the union movement is strong enough to carry the main burden of reform and at the same time radical enough to wish to do so.

It is probably foolish to expect a power group to take the initiative in regulating itself. If it were not for a few hopeful signs in union politics, the possibilities for political leadership from unionism would not even be worth mentioning. Unions, however, are actually displaying a capacity to represent in their political activities much broader interests than they wish to be concerned with in collective bargaining. They may be learning that political leadership in a democracy cannot be exercised unless it offers a program appealing to a majority of the electorate and not merely to the unionist.

In collective bargaining, union leaders seem to view the competitive price system as a jungle in which they are driven to take what they can get with what power they can wield. When chronic inflation or unemployment becomes our immediately pressing and frightening political and economic problem, it may occur to union leadership that it can no longer avoid the responsibility for indicating the terms on which it would be willing to subordinate union power to the general welfare. If union leadership is then a major element in national political leadership, it may not wish to jeopardize its power by refusing to exchange the union's right to go its own way for a continued strong voice in determining general rules for economic life.

The union member, like everyone else, is always faced with a choice of social groupings through which he can

realize his ambitions. His great choice is the union or the community as a whole. Under existing rules for the organization of the economy, he believes he can more successfully win certain of his objectives by joining with other workers in a union than by joining with other citizens in broad social reform. But if he can change some of the basic rules of economic organization, he may throw in his lot with the larger group. He may be willing to reduce the independent power of unionism in return for the new opportunities then opened up. What he loses as a union member, he gains as a citizen.

NOTES

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Monopoly

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4. Harold S. Roberts, *The Rubber Workers* (Harper, 1942), p 180.

5. Twentieth Century Fund, *How Collective Bargaining Works* (Twentieth Century Fund, 1942), p. 77

6. John T. Dunlop, *Wage Determination under Trade Unions* (Macmillan, 1944), p. 53.

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4. David A. McCabe, *National Collective Bargaining in the Pottery Industry* (Johns Hopkins University Press, 1932), pp. 387 f.
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8. *How Collective Bargaining Works* (Twentieth Century Fund, 1942), pp. 355 f.
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10. Hill, *op. cit.*, p. 176.
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3. The facts on licensing are to be found in Slichter, *op. cit.*, p. 49

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INDEX

Allocation of resources, 152 ff
American Federation of Labor, 262, A.F.L.-C.I.O. rivalry, 128, 196
Annual wage, 41, 42, 176
Apprenticeship, 64
Arbitration, 134 f., 211 ff.
Atkins, Willard E., 256
Automobile industry, 32, 53, 87, 88, 114, 119, 164–168, 204, 206

Baker, Ralph H., 262
Bakke, E. Wight, 258
Bargaining, Chap. IX, 122 ff.
Barkin, Solomon, 259, 261
Benham, Frederick, 57 n.
Bituminous coal. *See* Mining industry
Boddy, Francis M., 57 n.
Brotherhood of Railroad Trainmen, 261
Brown, Emily Clark, 258, 261
Building industry, 186 f.
Burns, R. K., 261
Business cycle, 23, 145

Carsel, Wilfred, 261
Chamberlain, Neil W., 159, 164–169 ff., 261
Christenson, C. Lawrence, 260
Clark, J. M., viii
Closed shop, 28, 65, 161
Clothing industry, 26, 186 f
Coal industry *See* Mining industry
Cole, Remsen, 258
Coleman, McAlister, 257
Competition, inadequacy of, Chap. XVII
Competitive price system, 4, 172, conflict between income aims and requirements of successful competitive operation of industry, 39, distinguished from other price systems, 6, inadequacy of, Chap. XVII. *See also* Price system
Competitive wage rates, 23 f.
Consumer interest, 53 ff.
Consumer power and rights, 14, 16
Cooke, Morris L., 261
Cost and resource allocation, 7
Cost of living· "living wage," 31 f., "saving wage," 31 f; "social wage," 31 f.
Cutthroat competition, 176

Derber, Milton, 257, 260
Dickinson, Z. Clark, vii
Dismissal wages, 163
Distribution of income: and social status, 10; average family income, 36, how determined, 8, income as a right, 37, income taxation as a means of equalization of, 10, inequality, 9 f.
Division of labor, 17
Drake, Leonard A., 258
Dubin, Robert, 260, 261
Dunlop, John T., vii, 67 n, 256, 259, 260

Economic System, functions of, 6
Economizing, 6, 7
Editorial Research Reports, 259
Elasticity of demand for labor, 74
Electrical equipment industry, 164–168
Employer power, 4; resistance, Chap. IX, wage policy and key wage settlement, 119
Employment stability, 41 f

Fact finding, 211 ff.
Featherbedding, 174

"First round" of wage increases, 87 f.
Fisher, Waldo E., 256, 260
Fitzpatrick, John, 30
Foster, William Z, 40, 256
Free occupational choice, 17
French worsted spinning industry, 78 f.

Golden, Clinton S., 256, 257, 262
Gompers, Samuel, 30, 184
Government regulation of unions' and price system, 239 ff.; criteria, 247–252, in politics, 253 ff., productivity criterion, 249 f.; prospects of, 246–253, requisites for, 237–246, unemployment criterion, 250 ff.
Greeley, Horace, 121
Green, William, 35
Guffey Act, 104

Haas, Francis J, 182 n
Harbison, Frederick H, 259, 260, 261
Hardman, J. B. S, 256, 259
Helstein, Ralph M, 257
Henig, Harry, 259
Hill, Samuel E, 257, 258, 260
Hochwald, Werner, 257
Hosiery industry, 50, 106 f.

Industrial democracy, 2, 172; and the price system, Chap. XVI
Industrial Union of Marine and Shipbuilding Workers, 42
Industry Councils, 157, 180
Industry-wide bargaining, 48, 86 ff, 231 f.
Inflation, 94, Chap XI
Innovation, 71, 81, 97, 141, 147, 150 ff.
See also Union tactics, and innovation
International Teamsters' Union. *See* Teamsters
International trade, 97 f.
Investment, incentive, 146 ff.

Kaplan, A. D. H., 256

Labor as a commodity, 2, 12, 15, 28
Lasswell, Harold D., 256
Latimer, Murray W, 257
Leese, Charles, 260
Lester, R A., vii, 259, 260, 261
Lewis, John L, 46 f, 203
Lindblom, Charles E., 260
Little Steel Formula, 208
Local bargaining, 74
Lorwin, Lewis L., 256
Lubin, Isador, 260

McCabe, David A., 257, 261
McPherson, W H., 259
Managerial prerogatives, Chap. XII, causes of union attack on, 169–172, conditions of work, 160; consequences of union attack on, 176 ff; coordinate activities, 167 f.; discipline, 160 f, distribution of work, 162 ff., finance, 165, in traditional collective bargaining, 159–164, jurisdiction, 162, marketing, 167, price and production policies, 164–168, procurement, 165 f.; production, 166 f, time and frequency of wage payments, 160
Maritime Union of America, National, 42
Meat-packing industry, 43 f., 87, 91, 115, 164–168
Mediation, 134 f
Mills, C Wright, viii
Mining industry, 26, 43, 76 f., 82, 95 f, 100, 107, 108, 115, 186 f, 189, 190
Monopoly, Chap II
Monthly Labor Review, 259
Motion-picture projectionists, 161
Murray, Philip, 102, 157, 180, 200, 261, 262

National Labor-Management Conference, 156
National Production Council, 157, 180
Needle trades, 102
Negative income taxation, 244
Newspaper guilds (C.I.O.), 163
Nonunion wage rates, 27, 138 f.
Nonwage income, 37, 135, 142
"No reduction," 81 f, 94, 127
Norton, Thomas L, 258

Organized agriculture, 194
Organized business, 194

Palmer, Gladys L., 258, 260
Parker, Glen L., 262
Perlman, Selig, vii
Permit systems. *See* Union tactics
Photoengravers, 112
Pierson, Frank C, 259
Polanyi, Karl, viii
Political action as a union weapon, 3
Pottery industry, 48, 135 f.
Price-cost calculations, 13
Price system, 6, 14 ff., 172, 239 ff, analogy with political organization, 16; and division of labor, 17, and free occupational choice, 17, and industrial democracy, Chap. XVI; characteristics of, 8, complexity and sensitivity of, 14; harshness and impersonality, 14, subordination of production to consumption, 18
Printers, 76
Public utilities, 164–168
Purchasing power, 83

Radicalism, 4
Railroad Adjustment Board, 164, 189 f.
Railroad brotherhoods, 51
Railroad industry, 186 f
Reder, Melvin, vii
Reed, Louis S., 256
Responsible unionism, Chap. XV; and the public interest, Chap. XV, centrally directed wage policy, Chap. XV; criteria, 202, 209, follow-the-leader wage settlements, 196, government's role, 207–214, inhibitions, 199, new leadership, 203; public opinion, 208; unification of labor movement, Chap. XV
Reuther Plan, 181
Reuther, Walter, 47, 181, 203
Reynolds, L. G., vii, 261
Roberts, David R, 258
Roberts, Harold S, 256
Robie, E. A, 259
Ross, A. M., vii, 27 n, 258, 262
Rubber industry, 33, 87, 164–168
Ruttenberg, Harold J, 256, 257, 262

Seidman, Joel, 260, 261
Self-interest, 6, Chap XV
Seniority, 50, 162
Service trades, 186 f.
Shister, Joseph, vii, 261
Shoe industry, 79, shoe workers, Mass, 77, 78
Simons, Henry, vii
Slichter, Sumner H., vii, 256, 257, 258, 261, 262
Smoot-Hawley tariff, 99 f
Social status and distribution of income, 10, and unionism, 3
Steel industry, 82, 87, 102, 164–168
Stevens, George A, 258, 260
Stigler, George, 259
Strikes, 5, as cost of production, 116, Chrysler, 1948, 91, employer's losses, 111 f., funds, 116; inadequate knowledge, 112, industry-wide, 232; nonwage issues, 112, strikebreakers and pickets, 90 f., 113 f, 118, termination of, 114 f., to remove surplus stocks, 115
Suffern, Arthur E, 261
Syndicalism, 178, Chap. XIV, and investment, 194; and "political"

Syndicalism (*continued*)
labor markets, 191, and socialism, 179, as cartelization, 179, coal industry, 192, government's role, 181, 187 ff, 192 ff, plans, 39, Portland Manifesto of A F L., 1923, 182

Tannenbaum, Frank, vii
Tapestry Carpet Workers' Union, Philadelphia, 77 f.
Teamsters, 107, 186 f, International Teamsters' Union, 49 f, 80, 82, 103, 104 f
Technological displacement, 151 f.
TNEC Hearings and Report, 259, 260
Trucking *See* Teamsters
Twentieth Century Fund, 256, 257, 258, 260, 261, 262
Typographical Union, 77, 161

Unemployment, 14, 18, Chap XI, as obstacle to union monopoly, Chap. VI, distribution of work, 162 f.
Union altruism, 52 f., and national wage policies, 86 ff., 142 ff, as entrepreneur, Chap. XIII, as monopoly, 22 (empirical evidence, 25 ff., compared with enterprise monopoly, 125–131), competitive politics within union, 46, consequences, Chaps. XI–XIV, conservatism, 20 ff., distribution of power among groups within the union, 49, growth of, 85, jurisdictional rivalry, 47, 162, leaders *vs* rank and file, 48 ff, long-run consequences, 31, permit systems, 50, politics, Chap IV, relative wage rates, 149 ff, short-run policies, 74; size, 45
Union tactics, Chap V, advertising, 99, "administered price" policy, 60, and business expansion, 96 f., 132, 150, closed shop, 65, compared with cartels and trade associations, 63, 69 f., controlling competition, Chap VII, control of buyer, 56 ff, control over labor supply, 57 f., direct control over product price, 102, discipline over work force, 59, entrance restrictions, 64, exclusion of out-of-town producers, 100, government aid, 134 f, higgling, 59, innovations, 105–109, 131 f., licensing, 65, limiting membership, 61, permit systems, 64; price maintenance associations, 103 f., product market manipulation, 99–105, refusal to work with nonunion products, 101, restriction of entry of firms, 104, strike against price-cutting employers, 102, strike as punitive measure, 61 f, union label, 100, union-management cooperation, 102 f, vocational training, 65, wage cutters, 63 f
Union shop, 28, 51, 118, 161
United Auto Workers. *See* Automobile industry
United Mine workers. *See* Mining industry
United Packinghouse Workers *See* Meat-packing industry
United Rubber Workers *See* Rubber industry
United States Bureau of Labor Statistics, 259
United States Steel *See* Steel industry

Van Kleeck, Mary, 259
Viner, Jacob, 257

Watson Bill, 189
Window Glass Workers, National, 26
Woll, Matthew, 183, 262

Worker's rights assurance of fair settlement of grievances, 11, pay, 12, protection against arbitrary authority or discipline, 11, "rights," 14, right to a job, 11
Work-sharing programs, 50 f.
Wyckoff, Vertrees J., 257